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Bookkeeping and Accounting

COURSE 5

CORPORATIONS AND MANUFACTURING

*A Self-teaching Course based on
20th Century Bookkeeping and Accounting*

*by P. A. Carlson,
A. L. Prickett, and H. L. Forkner*



PUBLISHED FOR THE UNITED STATES ARMED FORCES INSTITUTE
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HOW TO USE THIS BOOK

Are You Ready for this Course? If you have completed Course 4, *Bookkeeping and Accounting—Partnerships*, which immediately precedes this course, you are ready to begin Course 5 as presented in this textbook.

If you have not taken the preceding course but have had some instruction in bookkeeping and accounting elsewhere, you may be ready for the work that is presented here. This course assumes that you understand accounting for partnerships, the use of the more common types of columnar books of original entry, and the work at the end of a fiscal period, including the preparation of a work sheet and the handling of accruals, deferred items, depreciation, and uncollectible accounts.

If you are in doubt as to whether you understand these subjects sufficiently to take this course, complete the pretest that is given on pages 1 and 2 of your working papers. Then compare your answers with those given on page 144 of this textbook. If you have answered the questions satisfactorily, you may proceed with this course. If you have not answered the questions satisfactorily, you should complete one or more of the earlier courses before you undertake the work presented here.

Study Procedures. In order to gain an understanding of bookkeeping and accounting principles and methods, the following order of study is recommended:

1. *Read each chapter carefully.* Study the illustrations. Each illustration is put in for a specific purpose. Be sure that you understand it. Do not leave a chapter until you have a feeling of mastery. If any part of the chapter is not clear, reread it before you proceed with your work.

2. *Complete the study guide.* After the complete chapter has been thoroughly studied, and only then, complete the study guide that is given with the working papers. Instructions for the use of the study guide are given at the end of the chapter. The study guide provides a complete review and guide to your understanding of the chapter. If you use it correctly, it will show you what you need to review and will indicate when you are ready to proceed to the next chapter.

Make every effort to get a correct answer for each question or problem in the study guide. If you are not sure that your answer is correct, look it up in the chapter. After you have completed the study guide to the best of your ability, compare your answers with those given in the back of this

book. If there are any differences, reread the chapter until you thoroughly understand the reasons for them.

3. Complete the written exercises. If possible, complete all of the exercises with pen and ink, for bookkeeping records are written in this way. If it is not possible for you to use pen and ink, you may do your work in pencil. In that case be sure that the pencil is kept well sharpened so that you can make small, neat, easily read figures. In bookkeeping and accounting the correct results are most important, but neatness and legibility are also important.

Before starting on one of the written exercises, examine the illustrations of the forms that are to be used so that you will know that you are making your records correctly.

4. Check the accuracy of your exercises. After an exercise has been completed, check it with the answers given on pages 144 to 160 of this book. If your answers are not correct, do not be satisfied with your work until you have found and corrected the errors. Compare your work with the illustrations of similar forms given in this book. Note any differences between your work and the models so that you will avoid errors in future problems.

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By students enrolled in locally organized classes. If you received this book through enrollment in a locally organized class, you may apply for the End-of-Course Test through your instructor.

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Additional Information. If you find any problems or topics in the course that are not clear to you after you have done your best to solve them, and if you can find no one who can help you clear them up, feel free to write to the United States Armed Forces Institute, Madison, Wisconsin. When you write, be sure to give the title of the course, the course number, the exact topic that bothers you, and the page on which it occurs.

CONTENTS

CHAPTER	PAGE
How to Use This Book	iii
1 Proprietorship in a Corporation	1
2 Organization of a Corporation	13
3 Corporate Records	27
4 Corporate Financial Reports	41
5 Departmental Purchases and Sales	55
6 The Voucher System	71
7 Records of a Manufacturing Business	87
8 Reports of a Manufacturing Business	106
9 The Apex Manufacturing Company Practice Set	121
Solutions	144
Index	161

CHAPTER 1

PROPRIETORSHIP IN A CORPORATION

The Corporation. Single proprietorships and partnerships are usually unable to provide sufficient capital to operate large businesses, such as factories and public utilities. To obtain enough capital to operate large organizations, it is often necessary to secure funds from many persons. Some individuals are not willing to become part owners in a business if they must assume unlimited liability for the obligations of the business.

A form of business organization that may have many owners with each owner liable only for the amount of his investment is known as a *corporation*. The Supreme Court of the United States has defined a corporation as "an artificial being, invisible, intangible, and existing only in contemplation of law." Each corporation has legal authority to act as an individual. It is an artificial person created by law, either state or Federal.

Characteristics of a Corporation. Most corporations are authorized by a state government. A corporation is regarded by law as an individual. It may borrow money and may assume other obligations as a separate person. It may enter into contracts with outsiders and may enforce such contracts through the courts.

A corporation, as an individual, is responsible for its own acts and obligations. Creditors, therefore, may not claim more than the assets of the corporation in settlement of obligations. The liability of each owner of the corporation is limited, except in rare instances, to the amount of his investment.

The written instrument that authorizes the formation of a corporation and that gives the corporation the legal right to operate the business described in it is known as the *charter*. The corporation may engage only in the activities stated in the charter; however, the charter is usually comprehensive enough to permit all of the activities necessary for the operation of the business.

The life of a corporation depends upon the terms of its charter. It may continue for any length of time stated in the charter. The death or the incapacity of any one of the owners does not terminate the corporation. This characteristic makes the corporation a more stable type of organization than is a partnership.

Ownership in a Corporation. The ownership of each shareholder of a corporation is not represented by a separate capital account as it is in the case of a partnership. The ownership in a corporation is divided into units known as *shares*. The total shares of ownership in the corporation are known as the *capital stock*. The owner of one or more shares of capital stock is known as a *stockholder*. The evidence of each stockholder's ownership is a certificate known as a *stock certificate*. A typical stock certificate is shown below:

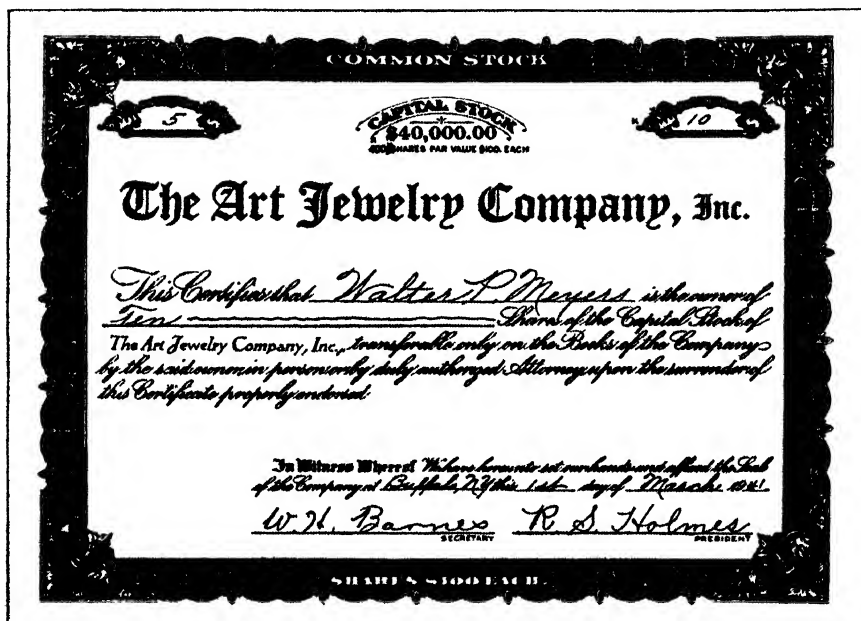


ILLUSTRATION 1, STOCK CERTIFICATE

The stock certificate shows, among other information, the name of the stockholder and the number of shares of ownership covered by the certificate. The stockholders of a corporation may sell the shares representing their ownership in the corporation at will without terminating the corporation.

Working Organization of a Corporation. When there is a large number of stockholders, it is impossible for each stockholder to have an active part in the management of the corporation. It is therefore customary for the stockholders to hold an annual meeting to elect from their body a group of persons to manage the business. The group of persons elected to manage the corporation is known as the *board of directors*. Each

share of stock ordinarily gives the holder the right to one vote in the stockholders' meetings.

When stockholders are unable to attend the stockholders' meetings, they may delegate their power to vote to an agent who votes for them. Voting through an agent is known as *voting by proxy*.

The board of directors in turn elects the officers of the corporation. The officers or their authorized agents have the power to complete transactions for the corporation. Unless he is an officer or an agent, a stockholder is not empowered to act for the corporation.

The officers are chosen by the board of directors and are responsible to the board of directors. The board of directors is elected by the stockholders and is responsible to the stockholders. All are governed by (a) the corporation charter and (b) the rules and regulations, known as *bylaws*, adopted by the stockholders for the regulation of the members of the corporation.

The working organization of a corporation is illustrated in the chart shown below:

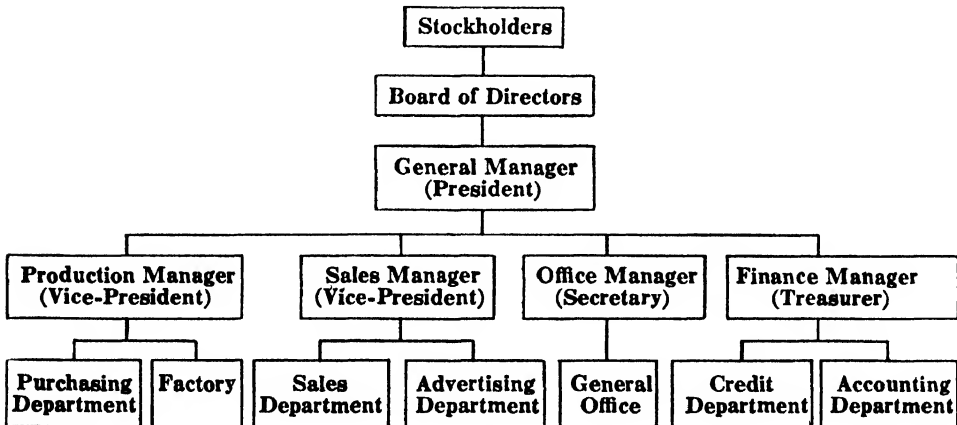


ILLUSTRATION 2, ORGANIZATION CHART OF A CORPORATION

Dividends. The profits of a corporation belong to the stockholders. The stockholders may not claim the profits, however, until they are given permission by the board of directors. When the board of directors decides to distribute the profits to stockholders, it is said to have *declared a dividend*. The amount of the profits to be distributed is called a *dividend*. The amount of the dividend is usually expressed in terms of a certain amount per share of stock.

Common Stock and Preferred Stock. When the capital stock of a corporation is all of one kind, it is called *common stock*. When the capital stock of a corporation is divided so that a part of it has some special rights or preferences, the stock with the special preferences is known as *preferred stock*. Preferred stockholders usually have a preference over common stockholders in the distribution of profits. Sometimes they have preference in the distribution of the assets in the event that the corporation is dissolved. In most cases only common stockholders have the right to vote.

Usually preferred stockholders are entitled to a certain amount of earnings before any distribution is made to the common stockholders. The dividend on preferred stock is usually stated as a percentage of the total amount of the preferred stock. For example, each holder of one or more shares of 6 per cent preferred stock with a value of \$100 per share is entitled to \$6 each year for each share held before the holder of a share of common stock will receive any dividends.

When the capital stock is of two kinds, common and preferred, the dividend on preferred stock is a fixed amount—a stated percentage of the value of the stock. The dividend on common stock is a flexible amount—whatever is available for dividends after the claims of the preferred stockholders have been taken care of. When the profits are large, the dividend on common stock may be larger than the dividend on preferred stock. When the profits are small, the preferred stockholders may receive their dividends and the common stockholders may receive nothing.

Cumulative and Noncumulative Preferred Stock. Some preferred stock, known as *cumulative preferred stock*, carries a provision that accumulates the claim for a dividend from year to year. If the corporation is unable to pay the dividends in one year, the accumulated dividend must be paid in subsequent years before anything can be paid to the common stockholders.

If a dividend on preferred stock that is not paid in one year need not be paid in a subsequent year, the stock is referred to as *noncumulative preferred stock*. From the point of view of the investor, the provision that makes preferred stock cumulative is desirable because the claim against profits then carries over from year to year.

Participating and Nonparticipating Preferred Stock. Ordinarily, after the dividends on the preferred stock have been paid, the common stockholders are entitled to all of the remainder of the dividend. In some cases, however, the preferred stock is given a right to share with the

common stock in profits above a certain amount. In such cases the preferred stock is said to be *participating*. If it does not share with the common stock in the distribution of profits above a fixed amount, the preferred stock is said to be *nonparticipating*.

If the preferred stock is nonparticipating, the common stock may be more valuable than the preferred stock. For example, a business has 1,000 shares of 6 per cent preferred stock with a value of \$100 a share and 1,000 shares of common stock with a value of \$100 a share. The board of directors declared a dividend of \$18,000. The nonparticipating preferred stockholders received a total dividend of \$6,000 (6 per cent of \$100,000, the total value of the preferred stock). The common stockholders received the remainder of the declared dividend, or \$12,000, which is 12 per cent of \$100,000, the total value of the common stock.

If the preferred stock had been participating, the preferred stockholders would have received a share of the dividend after the common stockholders had received a dividend equal to the initial dividend of the preferred stockholders. In the above case, after \$6,000 (\$6 a share) had been paid to the preferred stockholders, and an equal amount (\$6 a share) had been paid to the common stockholders, there would still be \$6,000 to distribute among all stockholders. If this amount was to be divided equally between the two classes of stock, each stockholder, common and preferred, would receive an additional dividend of \$3 per share. Both common and preferred stockholders would have received a total dividend of \$9 per share.

From the point of view of the investor, it is therefore desirable to have the preferred stock both participating and cumulative.

Par-Value and Nopar-Value Stock. The charter of a corporation always states the number of shares of stock that the corporation has authority to issue. The total amount of stock that a corporation is permitted by its charter to issue is known as the *authorized capital stock*. Sometimes a definite value is assigned to each share of stock and is printed on all stock certificates. This amount printed on the stock certificate is known as the *par value* of the share, and the stock is said to be *par-value stock*. In many cases the par value of stock is \$100 a share.

If the value of each share of stock is not given, the stock is said to be *nopar-value stock*. When nopar-value stock is issued, the capital stock of a corporation is divided into a definite number of shares but no definite value is assigned to each share.

Par-value stock is usually issued at its face value. Nopar-value stock may be issued at any price equal to or greater than the minimum estab-

lished by the state law. In most states the minimum at which no-par-value stock may be issued is \$5 a share.

Proprietorship Accounts of a Corporation. The proprietorship section of the ledger of a corporation does not contain a separate capital account for each owner of stock. If the corporation stock is all common stock, a single capital account with the title *Capital Stock* shows the total amount of the capital stock that has been issued. When a corporation issues both common and preferred stock, it is desirable to have two capital accounts. The common stock issued is then recorded in an account with the title *Capital Stock, Common*. The preferred stock issued is recorded in an account with the title *Capital Stock, Preferred*.

The value of the capital stock as shown in the capital stock account usually is not changed except when new stock is issued or old stock is retired. Profits that are earned are credited to an account with the title *Surplus* at the end of the fiscal period. Any dividends declared and any losses suffered are debited to the surplus account. The surplus account summarizes the changes in the proprietorship of the corporation.

When the loss of a corporation exceeds the credit balance of the surplus account, the net loss is sometimes debited to a special account with the title *Deficit*. A decrease in the proprietorship is usually listed on the balance sheet under the heading *Deficit*. However, if the losses suffered by the corporation are offset by the credit balance of the surplus account, the losses are debited to the surplus account.

The total proprietorship of a corporation is determined by adding the balances of the capital stock accounts and the balance of the surplus account.

Values of Stock. The value at which stock is issued is known as the *issue value*. The value per share printed on the par-value stock certificates is usually the issue value of par-value stock. The issue value of no-par-value stock is the amount paid for it at the time of issue.

The value of each share of stock as shown by the corporate books is known as the *book value*. If the corporation issues only common stock, the book value of a share of stock is determined by dividing the total proprietorship (capital stock plus surplus) by the number of shares of common stock outstanding. When a corporation issues both common and preferred stock, the total amount of the preferred stock is deducted from the total proprietorship before the book value of the common stock is determined.

The value at which a share of stock may be sold is referred to as the *market value*. If the business is profitable, the market value may be higher than the issue value or the book value. If the business is not profitable, the market value of the share of stock may be lower than the issue value or the book value. The stock of one corporation having a par value of \$100 may sell for \$150, while the stock of another corporation with the same par value may sell for only \$75.

Balance Sheet of a Corporation. The assets and the liabilities of a corporation are shown on the balance sheet in the same manner as the assets and the liabilities of a single proprietorship or a partnership. The only difference in the statement is in the proprietorship section.

The proprietorship section of the balance sheet of the B. R. Farrow Co., is shown below:

Proprietorship	
Capital Stock	\$100,000.00
Surplus	<u>32,814.50</u>
Total Proprietorship	<u>132,814.50</u>
Total Liabilities and Proprietorship	<u><u>\$157,472.85</u></u>

ILLUSTRATION 3, PROPRIETORSHIP SECTION OF A CORPORATE BALANCE SHEET

The foregoing balance sheet indicates that the B. R. Farrow Co. issued only common stock, for all of the stock is listed under the account title Capital Stock.

The Hunt Well-Drilling Company issued both common and preferred stock. Each type of stock is recorded in a separate capital account. The two types of stock are listed on the balance sheet as shown below:

Proprietorship	
Capital Stock, Common	\$50,000.00
Capital Stock, Preferred	50,000.00
Surplus	<u>12,343.82</u>
Total Proprietorship	<u>112,343.82</u>
Total Liabilities and Proprietorship	<u><u>\$122,581.13</u></u>

ILLUSTRATION 4, COMMON AND PREFERRED STOCK ON THE CORPORATE BALANCE SHEET

If a corporation has a deficit, the amount of the deficit must be shown in the proprietorship section of the balance sheet as a deduction from the capital stock.

At the end of the fiscal period ended June 30, The Southeastern Lumber Corporation had a deficit of \$18,347.42. The proprietorship section of the corporate balance sheet appeared as follows:

Proprietorship	
Capital Stock, Common	\$100,000.00
Capital Stock, Preferred	100,000.00
Total Capital Stock	200,000.00
Less Deficit	<u>18,347.42</u>
Total Proprietorship	181,652.58
Total Liabilities and Proprietorship.....	<u><u>\$247,383.40</u></u>

ILLUSTRATION 5, DEFICIT ON A CORPORATE BALANCE SHEET

Comparison of Corporations and Partnerships. The chief differences between a corporation and a partnership type of business organization are outlined below:

<i>Corporation</i>	<i>Partnership</i>
1. Ownership represented by stock certificates.	1. Ownership represented by the articles of copartnership.
2. Shares may be transferred without terminating the corporation.	2. Sale of interest of partner dissolves the partnership.
3. Activity limited by the charter.	3. Activity depends on agreement of partners.
4. Obligations arise from the acts of agents or officers only.	4. Obligations arise from the acts of any partner.
5. Limited liability of owners (stockholders).	5. Unlimited liability of owners (partners).
6. Length of life depends on charter.	6. Length of life depends on partnership agreement. Also dissolved by death, incapacity, or withdrawal of one of partners.
7. Owners have indirect control.	7. Owners have direct control.
8. Stockholders may not claim profits unless a dividend is declared.	8. Profits may be claimed according to the partnership agreement.
9. Separate legal entity.	9. Organization identified with owners.
10. Proprietorship shown in capital stock and surplus accounts.	10. Proprietorship shown by separate capital and drawing accounts for each partner.

Advantages of the Corporation. The corporate form of business organization has the following advantages over the single proprietorship and the partnership:

1. It limits the liability of each stockholder.
2. It permits many investors and thus provides for the accumulation of large amounts of capital.
3. It allows each investor to transfer his interest without securing the consent of the other owners and without dissolving the corporation.
4. It is not terminated by the death of one of the owners.

Disadvantages of the Corporation. The chief disadvantages of the corporate form of business organization are as follows:

1. The limited liability of the stockholders may handicap the corporation when it seeks to borrow funds. The security for loans is limited to the assets of the corporation.
2. The activity of a corporation is limited by its charter. The type of business cannot be changed unless the charter is amended.
3. The state and Federal governments require many reports from corporations. These reports are sometimes inconvenient and costly to prepare.
4. In some cases the taxes imposed upon corporations are heavier than those imposed upon individuals.

STUDY GUIDE 1

After you have finished reading this chapter, complete Study Guide 1 on pages 3 and 4 of the working papers that accompany this textbook. Read the instructions carefully for each part of the study guide. If you are doubtful about an answer in the study guide, reread the chapter until you find the correct answer.

Note that the study guide is continued on the back of the sheet. To use the back of a sheet conveniently, you may tear out the sheet on the perforated line at the top.

After you have completed the study guide, compare your answers with the solutions given on page 144 of this book. Do not refer to the solutions until you have answered all questions, for that will prevent the study guide from being of the greatest value to you.

As you compare your answers with the solutions in the textbook, place an X in the "For Scoring" column after each incorrect item so that when you have finished you will know which of the questions should be reviewed. Restudy the part of the chapter in which those questions are answered so that you will be sure of the answers. You may need this information in later problems and tests.

WRITTEN EXERCISES

Complete the following exercises, using pages 5 to 8 of your working papers. If you are doubtful about the correct form to be used, refer to the illustrations in this chapter.

In using the working papers, note that each page is numbered to correspond with the numbers of the instructions of the written exercise. This will assist you in using the correct form for each part of an exercise.

The sheets in your working papers are perforated. When you have completed the work on the front of the sheet, tear out the sheet before you try to write on the back.

Exercise 1, Dividends

The Swanson Chicken Farms, Inc. had the following net profits available for dividends in each of six successive years:

- | | |
|--------------|--------------|
| (a) \$10,000 | (d) \$ 2,500 |
| (b) \$15,000 | (e) \$20,000 |
| (c) \$ 5,000 | (f) \$25,000 |

The corporation has outstanding 1,000 shares of common stock and 1,000 shares of 6 per cent preferred stock, each share having a par value of \$100. Four fifths of the profits were paid each year as dividends.

Instructions: (1) Determine how much each stockholder received each year on a share if the preferred stock was noncumulative and nonparticipating.

(2) Determine how much each stockholder would have received each year on a share if the preferred stock had been cumulative and nonparticipating.

(3) Determine how much each stockholder would have received each year on a share if the preferred stock had been cumulative and fully participating.

(4) If at the end of the last year of this series the surplus account had a balance of \$65,000, what was the book value of each share of common stock?

Exercise 2, Corporate Balance Sheets

On December 31 of the current year the proprietorship sections of the ledgers of three local corporations contained accounts as follows:

- (A) The Diamond Well Drilling Company:
Capital Stock, \$10,000
Surplus, \$2,432.50

(B) Kiel Furniture Company:

Capital Stock, Common, \$5,000

Capital Stock, Preferred, \$5,000

Surplus, \$1,050.18

(C) Midland Tobacco Growers, Inc.

Capital Stock, Common, \$8,000

Capital Stock, Preferred, \$5,000

Deficit, \$8,203.15

Instructions: Prepare the proprietorship section of the balance sheet for each of these corporations on December 31.

Exercise 3, Division of Corporate Profits

At the beginning of 1932 the balance sheet of each of two different corporations showed a capital stock of \$200,000, composed of 1,000 shares of 6 per cent cumulative preferred stock with a par value of \$100 and 2,000 shares of common stock with a par value of \$50. In each case the board of directors declared dividends on preferred stock whenever possible and declared dividends on common stock amounting to one half of the balance of the earnings in any year after the preferred dividends had been declared.

The profits and the losses for a period of ten years are given below:

	Corporation A	Corporation B
1932	\$ 8,000 loss	\$ 6,000 profit
1933	15,000 loss	6,000 loss
1934	5,000 profit	2,000 loss
1935	12,000 profit	3,000 profit
1936	22,000 profit	15,000 profit
1937	30,000 profit	24,000 profit
1938	16,000 profit	12,000 profit
1939	4,000 profit	1,000 profit
1940	9,000 profit	10,000 profit
1941	18,000 profit	16,000 profit

Instructions: (1) Determine what dividends were paid to the preferred stockholders and to the common stockholders in each year.

(2) Show the distribution of the profit for each year on columnar paper with the following headings: (a) Year, (b) Income, (c) To Preferred Stock, (d) Balance Due on Preferred Stock, (e) To Common Stock, (f) To Surplus or Deficit, (g) Balance of Surplus or Deficit. Encircle negative items.

After you have completed the exercises, check your solutions with the answers given on pages 145 and 146 of this book. If your solutions do not correspond to the printed answers, go over them carefully until you are able to find your errors and correct them. When you have correct solutions for the exercises, you are ready to begin the study of Chapter 2.

CHAPTER 2

ORGANIZATION OF A CORPORATION

Formation of a Corporation. The organization of a corporation must be carried on according to the provisions of the laws of the state in which the corporation is to be organized. In most states the incorporators must make written application to the proper state authority, usually the secretary of state, for permission to incorporate. They must have a minimum amount of capital with which to begin operations. In most states three or more persons are necessary to organize a corporation.

Subscription List. Before application for permission to incorporate can be made, the organizers of a corporation must have some definite promises to buy stock. Persons who promise to buy stock are known as *subscribers*. The agreement that is signed by the subscribers indicating the amount of stock that each subscriber has agreed to purchase is referred to as a *subscription list*. The subscription list, or a certified copy of it, in some states must accompany the application for permission to incorporate.

Subscription List

THE COOK DISTRIBUTING COMPANY

To Be Incorporated Under the Laws of California

Capital Stock, \$80,000

Par Value \$100 a Share

We, the undersigned, hereby severally subscribe for and agree to take at par value the number of shares of capital stock of The Cook Distributing Company set opposite our respective signatures, said subscriptions to become due upon completion of the organization of said company, and to be then payable in cash on demand of the treasurer of the company.

Date	Names	Addresses	Shares	Amounts
1940 Dec 23	M. M. Cook	1407 Fifth Ave., San Francisco, Calif.	150	\$15,000.00
23	G. M. Bell	803 Redway, San Francisco, Calif.	100	10,000.00
26	W. K. Hume	83 Terrace Blvd., Los Angeles, Calif.	35	3,500.00
26	R. E. Klink	1731 Eighth Street, Los Angeles, Calif.	20	2,000.00
31	H. S. Lee	888 Spruce Place, Pomona, Calif.	12	1,200.00

ILLUSTRATION 6, SUBSCRIPTION LIST

M. M. Cook, G. M. Bell, W. R. Houns, R. G. Klink, and G. G. Lellas decided to organize a corporation to operate an automobile accessory business to be known as The Cook Distributing Company. They each agreed to buy stock in the corporation as shown by the subscription list illustrated on page 13.

The subscription list showed (a) the number of shares to be purchased by each subscriber, (b) the price to be paid, and (c) the method of payment. Each of the incorporators agreed to pay for the stock on demand. After the corporation was organized, each subscriber was legally bound to pay the amount subscribed.

Certificate of Incorporation. When sufficient subscriptions for capital stock have been obtained, the organizers of a corporation must make written application to the proper state official for authority to incorporate. This written application for permission to incorporate is ordinarily known as the *certificate of incorporation*.

The certificate of incorporation usually contains: (1) the name under which the business is to be operated; (2) the purpose for which the corporation is formed; (3) the location of the principal office of the corporation; (4) the duration of the corporation; (5) the names and the addresses of the first board of directors or of the incorporators; (6) the amount of capital stock, the kind of stock, and the number of shares; and (7) the amount of capital stock that has actually been subscribed.

On January 2 the incorporators of The Cook Distributing Company had their stock subscription list completed. On that day they drew up a certificate of incorporation and filed it with the secretary of the state in which the corporation was to be organized. This certificate is shown in Illustration 7 on page 15.

When the certificate of incorporation was approved, the secretary of state furnished a certified copy of it to the incorporators. This copy was then recorded in the office of the recorder of the county in which the business was located. The formation of the corporation was then completed. The certified copy of the certificate of incorporation after it was properly recorded was referred to as the *charter* of the corporation.

Opening Entry for a Corporation. The certificate of incorporation of The Cook Distributing Company provided that the corporation would begin business with a capital of \$31,700. On the day that the charter was received, the five incorporators purchased 317 shares of the stock for cash, \$31,700. A stock certificate was issued to each subscriber indicating

CERTIFICATE OF INCORPORATION
of
THE COOK DISTRIBUTING COMPANY

We, the undersigned, all of whom are residents of the State of California, in order to form a corporation for the purposes hereinafter stated, under and pursuant to the provisions of the laws of the State of California, do hereby set forth and certify as follows:

FIRST: The name of the corporation is The Cook Distributing Company.

SECOND: The purpose for which the corporation is formed is to engage in the business of distributing automobile accessories, and to carry on any lawful business whatsoever necessary, proper, or convenient to be carried on incidental to or in connection with the foregoing purpose.

THIRD: The place where the principal business of the corporation is to be transacted is the City of Los Angeles, County of Los Angeles, State of California.

FOURTH: The term for which the corporation is to exist is fifty (50) years from and after the date of its incorporation.

FIFTH: The number of the Board of Directors of the corporation shall be five (5). The names and the addresses of the persons who are appointed to act as the first directors are as follows:

M. M. Cook	1407 Fifth Avenue, San Francisco, California
G. M. Bell	803 Ridgeway, San Francisco, California
W. R. Houns	83 Terrace Boulevard, Los Angeles, California
R. G. Klink	1731 Eighth Street, Los Angeles, California
G. G. Lellas	888 Spruce Place, Pomona, California

SIXTH: This corporation is authorized to issue only one class of shares of stock. The total number of said shares shall be eight hundred (800); the aggregate par value of all of said shares shall be Eighty Thousand Dollars (\$80,000); and the par value of each of said shares shall be One Hundred Dollars (\$100).

SEVENTH: The amount of said capital stock that has been actually subscribed is Thirty-One Thousand Seven Hundred Dollars (\$31,700).

IN WITNESS WHEREOF, we have hereunto set our hands and seals, this second day of January, 1941.

M. M. Cook (Seal)
G. M. Bell (Seal)
W. R. Houns (Seal)

R. G. Klink (Seal)
G. G. Lellas (Seal)

STATE OF CALIFORNIA }
County of Los Angeles } SS:

On this second day of January, 1941, before me, A. L. McGinnis, a Notary Public in and for said County and State, personally appeared M. M. COOK, G. M. BELL, W. R. HOUNS, R. G. KLINK, AND G. G. LELLAS, known to me to be the persons whose names are subscribed to the within instrument, and acknowledged to me that they executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

(SEAL)

A. L. McGinnis
Notary Public in and for said
County and State
My commission expires March 2, 1943

ILLUSTRATION 7, CERTIFICATE OF INCORPORATION

the number of shares of stock that he owned. The following entry was made in the cash receipts journal to record the sale of the stock:

CASH RECEIPTS JOURNAL						Page 1
Date	Account Credited	Explanation	Post. Ref.	General Ledger Cr.	Accounts Rec. Cr.	Net Cash Dr.
1941 Jan. 8	Capital Stock	317 Shares		31,700 —		31,700 —

When this entry was posted, the capital stock account was credited for \$31,700, the value of the capital stock that was issued and outstanding.

Organization Expenses. In organizing a corporation the services of one or more attorneys are usually employed. An incorporation fee must be paid to the state government. These fees and other costs of organization of a corporation are called *organization expenses*. They are recorded in a special account with the title *Organization Expenses*.

The expenses of organizing a corporation are not expenses of any one fiscal period. They apply to the entire life of the corporation. It is customary, therefore, to classify the organization expenses account as an *intangible asset*.

Before The Cook Distributing Company began operations, Mr. Cook personally paid \$436 in organization expenses for the corporation. When he was reimbursed by the corporation, the following entry was made in the cash payments journal:

CASH PAYMENTS JOURNAL						Page 1
Date	Account Debited	Explanation	Post. Ref.	General Ledger Dr.	Accounts Payable Dr.	Net Cash Cr.
1941 Jan. 10	Organization Expenses	Repaid Mr. Cook for organization expenses advanced		436 —		436 —

Subscriptions for Capital Stock. The organizers of The Cook Distributing Company believed that they needed more capital in order to operate the corporation efficiently. To encourage investors to buy stock, they agreed to sell it on the installment plan with each investor paying \$20 per share as a down payment. The remainder was to be paid in monthly installments of \$20. Stock certificates were to be issued when the entire

amount of the stock had been paid. By January 31 the corporation had received subscriptions for 240 shares of stock and \$4,800 in cash as down payments from the investors.

The subscriptions for capital stock represent amounts to be collected from subscribers. They are recorded as debits in a special account with the title *Subscriptions Receivable*. They are similar to accounts receivable and are classified as current assets.

The capital stock account should be credited only when stock certificates are issued. No stock certificates are issued at the time subscriptions are received. The amount of the subscriptions is therefore credited to a temporary capital stock account entitled *Capital Stock Subscribed*. The credit balance of the capital stock subscribed account represents stock that will be issued when the subscriptions are fully paid.

The entry to record the total subscriptions for capital stock received by The Cook Distributing Company was recorded in the general journal. The cash received as a down payment on these subscriptions was recorded in the cash receipts journal. These two entries were as follows:

31 Subscriptions Receivable.....	24,000 —	
Capital Stock Subscribed.....		24,000 —
To record subscriptions for 240 shares of capital stock.		

CASH RECEIPTS JOURNAL

Date	Account Credited	Explanation	Post. Ref.	General Ledger Cr.	Accounts Rec. Cr.	Page Net Cash Dr.
31	Subscriptions Receivable	Down payment of \$20 a share		4,800 —		4,800 —

When these two entries were posted, the subscriptions receivable account had a debit balance of \$19,200, the amount still to be collected from the subscribers. The capital stock subscribed account had a credit balance of \$24,000, the amount of capital stock to be issued when the subscriptions were fully paid.

The installments on the stock subscriptions were received on the last day of each month. Each installment amounted to \$4,800 and was recorded in the cash receipts journal. On May 31 the final installment of

\$4,800 was received in full payment of the capital stock subscribed. Stock certificates were then issued to each of the stockholders to show that they owned the stock for which they had subscribed and paid.

The entry in the general journal of the corporation to record the issuance of the stock was as follows:

31 Capital Stock Subscribed.....	24,000—	
Capital Stock		24,000—
To record the issuance of 240 shares of capital stock.		

When this entry was posted, the capital stock subscribed account was debited to show that \$24,000 worth of subscribed stock had been paid for and had been issued. The capital stock account was credited for the amount of the increase in the capital stock issued. The capital stock account then showed the total amount of capital stock that had been issued and was outstanding.

If the corporation had issued no par-value stock, the only difference in the entries would have been in the explanations. The explanation of the entry to record the subscriptions would state the issue price of the stock.

Common and Preferred Stock Accounts. If a corporation issues both common and preferred stock, separate accounts must be kept for each class of stock. When a corporation issues these two classes of stock, the word "Common" is added to the title of all accounts in which common stock is recorded; the word "Preferred" is added to the title of all accounts in which preferred stock is recorded. The entries to record stock subscriptions and the issuance of stock are the same as those in the preceding illustrations except that separate entries are made for each class of stock.

Incorporating a Partnership. An established business operated as a single proprietorship or a partnership may be incorporated and the operations continued. The organization procedure must conform to the state or the Federal laws. Stock subscriptions must be obtained and a charter must be received from the state authorities before the business can begin operations as a corporation. From an accounting standpoint, the incorporation of a partnership involves the closing of the partnership books and the opening of a new set of books for the corporation.

A. L. Shea and M. E. Burns were equal partners in a retail grocery business. They decided to incorporate their business in order to obtain

additional capital with which to expand the business. R. J. Larkin and W. E. Coats agreed to buy stock in the corporation, which was to be known as Shea, Burns & Co.

The incorporators of Shea, Burns & Co. agreed that the corporation should have a total authorized capital stock of \$75,000. The total issue was to consist of 375 shares of common stock with a par value of \$100 a share and 375 shares of 6 per cent preferred stock with a par value of \$100 a share.

The balance sheet of the partnership of Shea & Burns on December 31 appeared as follows:

SHEA & BURNS		
BALANCE SHEET, DECEMBER 31, 1940		
<i>Assets</i>		
Current Assets:		
Cash.....	8,150—	
Notes Receivable.....	1,500—	
Accounts Receivable.....	2,176—	
Merchandise Inventory.....	15,500—	
Total Current Assets.....		27,326—
Deferred Charges:		
Office and Store Supplies.....	124—	
Prepaid Insurance.....	250—	
Total Deferred Charges.....		374—
Fixed Assets:		
Store and Office Equipment... 1,100.00		
Less Res. for Depreciation of		
Store and Office Equipment 100.00	1,000—	
Delivery Equipment..... 2,750.00		
Less Reserve for Depreciation		
of Delivery Equipment.... 250.00	2,500—	
Total Fixed Assets.....		3,500—
Total Assets.....		31,200—
<i>Liabilities</i>		
Current Liabilities:		
Notes Payable.....	3,000—	
Accounts Payable.....	1,284—	
Total Current Liabilities.....		4,284—
<i>Proprietorship</i>		
A. L. Shea, Capital.....	13,458—	
M. E. Burns, Capital.....	13,458—	
Total Proprietorship.....		26,916—
Total Liabilities and Proprietorship.....		31,200—

It was agreed that the corporation would take over the assets and assume the liabilities of the partnership of Shea & Burns. Each of the partners was to receive 150 shares of common stock for his proprietorship in the partnership. R. J. Larkin subscribed for 125 shares of the preferred stock and W. E. Coats subscribed for 50 shares of the preferred stock. The subscription list and the certificate of incorporation were submitted to the secretary of state. When the certificate was approved, the secretary of state furnished a certified copy of it to the incorporators, who then recorded it in the office of the county recorder. The organization procedure was completed on December 31.

Goodwill. The corporation agreed to pay Mr. Shea and Mr. Burns a total of \$30,000 for their ownership in the partnership. The balance sheet showed the total proprietorship of the partnership to be \$26,916. The difference of \$3,084 between the proprietorship as shown on the balance sheet and the sale price was known as *goodwill*.

Goodwill is of an intangible nature and is referred to as an *intangible asset*. It should never be recorded on the books unless it is actually purchased or sold.

The partnership books should show the total proprietorship at the value received for it from the corporation. It was necessary, therefore, to record the goodwill of \$3,084 in a special asset account with the title *Goodwill*. As Mr. Shea and Mr. Burns shared profits and losses equally, the goodwill was distributed equally between their capital accounts. The following entry was made to record the goodwill on the partnership books:

31	Goodwill.....	3,084—	
	A. L. Shea, Capital.....		1,542—
	M. E. Burns, Capital.....		1,542—
	To record goodwill.		

When this entry was posted, the partnership books showed the total proprietorship at the price the corporation paid for it, \$30,000.

Closing the Books of the Partnership. To close the books of the partnership, four entries were required, as follows: (1) an entry to close the asset accounts and to show the transfer of their balances to the new corporation; (2) an entry to close the liability accounts and to show the transfer of their balances to the new corporation; (3) an entry to record the amount of stock received by the partnership from the corporation;

and (4) an entry to record the distribution of the stock to the partners' capital accounts and to close the partners' capital accounts. The entries required to close the books of the partnership are shown below:

31	Shea, Burns & Co.	34,284—	
	Reserve for Depreciation of Store and Office Equipment. . . .	100—	
	Reserve for Depreciation of Delivery Equipment.	250—	
	Cash.		8,150—
	Notes Receivable.		1,500—
	Accounts Receivable		2,176—
	Merchandise Inventory		15,500—
	Office and Store Supplies		124—
	Prepaid Insurance		250—
	Store and Office Equipment . . .		1,100—
	Delivery Equipment		2,750—
	Goodwill.		3,084—
	To close out the assets turned over to Shea, Burns & Co. . .		
31	Notes Payable	3,000—	
	Accounts Payable	1,284—	
	Shea, Burns & Co.		4,284—
	To close out the liabilities as- sumed by Shea, Burns & Co. . .		
31	Capital Stock, Common, in Shea, Burns & Co.	30,000—	
	Shea, Burns & Co.		30,000—
	To record the stock received from Shea, Burns & Co.		
31	A. L. Shea, Capital	15,000—	
	M. E. Burns, Capital	15,000—	
	Capital Stock, Common, in Shea, Burns & Co.		30,000—
	To record the distribution of the common stock to the part- ners.		

The account entitled Shea, Burns & Co. was opened so that the partnership books would show the details as to the disposal of the assets and the liabilities. When the first two entries were posted, the asset and the liability accounts of the partnership were closed. The debit balance of the account with Shea, Burns & Co., \$30,000, was equal to the proprietorship of the partnership.

When the third entry was posted, the new account Capital Stock, Common, in Shea, Burns & Co. indicated the receipt of capital stock from the corporation. The account Shea, Burns & Co., to which the partnership assets and liabilities had been transferred, was closed.

When the last entry was posted, the capital accounts of the partners indicated the distribution of the capital stock received from the corpora-

tion. The capital accounts and the account with Capital Stock, Common, in Shea, Burns, & Co. were closed. All the accounts in the books of the partnership were closed. The partnership books then showed all the details relative to the closing of the books and the transfer of the business to the new corporation, Shea, Burns & Co.

Opening the Books of the Corporation. To open the books of the corporation, three entries were required in the general journal, as follows: (1) an entry to record the assets received from the partnership; (2) an entry to record the liabilities assumed from the partnership; and (3) an entry to close the account with the partners and to record the issuance of the stock to the partners. Two entries were also required in the cash receipts journal, as follows: (1) an entry to record the amount of cash actually received from the partnership, and (2) an entry to record the sale of preferred stock for cash to the two new investors. These entries are shown below:

GENERAL JOURNAL				Page 1
Date	Account Titles and Explanation	Post. Ref.	Debit Amount	Credit Amount
1941 Jan. 1	Cash.....		8,150—	
	Notes Receivable.....		1,500—	
	Accounts Receivable.....		2,176—	
	Merchandise Inventory.....		15,500—	
	Office and Store Supplies.....		124—	
	Prepaid Insurance.....		250—	
	Store and Office Equipment.....		1,100—	
	Delivery Equipment.....		2,750—	
	Goodwill.....		3,084—	
	Reserve for Depreciation of Store and Office Equipment.....			100
	Reserve for Depreciation of Delivery Equipment.....			250
	Shea & Burns.....			34,284
	To record the assets received from Shea & Burns.			
1	Shea & Burns.....		4,284—	
	Notes Payable.....			3,000
	Accounts Payable.....			1,284
	To record the liabilities assumed from Shea & Burns.			
1	Shea & Burns.....		30,000—	
	Capital Stock, Common.....			30,000
	To close the account with the partnership and to record the issuance of 300 shares of common stock.			

CASH RECEIPTS JOURNAL

Page 1

Date	Account Credited	Explanation	Post. Ref.	General Ledger Cr.	Accounts Rec. Cr.	Net Cash Dr.
1941 Jan.	1 Shea & Burns.	Investment	✓	8,150—		8,150
	1 Capital Stock Preferred.	175 shares.		17,500—		17,500

The entries in the general journal provided a complete record of the incorporation of the partnership. As all cash receipts must be recorded in the cash receipts journal, a separate entry for the cash received from Shea & Burns, \$8,150, was made in that journal. Check marks were placed in the appropriate places to prevent double posting.

The third entry in the general journal recorded the issuance of 150 shares of common stock to each of the partners, A. L. Shea and M. E. Burns. When the entry was posted, the account with the partners was closed. The account Capital Stock, Common had a credit balance of \$30,000, the value of the stock issued to Mr. Shea and Mr. Burns. The corporation books then showed a detailed record of the incorporation of the partnership.

The second entry in the cash receipts journal recorded the sale of 175 shares of preferred stock for cash to the two new investors, R. J. Larkin and W. E. Coats. When this entry was posted, the account Capital Stock, Preferred showed a credit balance of \$17,500, the total value of the preferred stock issued. The sum of the balances of the two capital stock accounts, Capital Stock, Common and Capital Stock, Preferred, was then \$47,500, the total amount of the capital stock issued and outstanding.

Proprietorship Accounts of a Corporation. When the incorporation of Shea, Burns & Co. was completed and the stock certificates were issued, the proprietorship accounts in the ledger of the corporation appeared as follows:

CAPITAL STOCK, COMMON

Page 71

1941 Jan.	1	J1	30,000—
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CAPITAL STOCK, PREFERRED

Page 74

1941 Jan.	1	CR1	17,500—
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STUDY GUIDE 2

Complete Study Guide 2 on pages 9 and 10 of your working papers. If you are doubtful about an answer, reread the chapter until you find the correct answer.

After you have completed the study guide to the best of your ability compare your answers with those given on page 146 of this book. Do not refer to the printed answers until you have made a serious effort to answer all questions for yourself, for it is only through your independent use of the study guide that the guide will be of greatest value to you.

If you find that you have missed any of the questions, reread the part of the chapter in which those questions are answered so that you will be sure of the answers. You will need this information for late problems and tests.

WRITTEN EXERCISES

Complete the following exercises, using pages 11 to 14 of your working papers.

Exercise 4, Opening Entries for a New Business Organized as a Corporation

V. G. Feldt, D. K. Wirth, and J. I. Mullen applied for a charter to operate a corporation to distribute school supplies. The authorized capital stock consisted of 100 shares of common stock with a par value of \$50 and 100 shares of 5 per cent preferred stock with a par value of \$50. The organizers subscribed for common stock as follows:

V. G. Feldt, 40 shares of common stock
D. K. Wirth, 25 shares of common stock
J. I. Mullen, 15 shares of common stock

The charter was granted and the organization was completed on July of the current year. The following transactions are selected from those completed by the corporation during the current year.

- July
1. Received \$4,000 from the three organizers in full payment of the original subscriptions. Issued the stock certificates.
 1. Paid cash, \$197.50, to V. G. Feldt for organization expense advanced by him.
 5. Received subscriptions for 50 shares of preferred stock at par value. Received half of the subscriptions in cash. The remainder was to be collected in two equal monthly installments.
 10. Received cash, \$250, in full payment for 5 shares of common stock. Issued the stock certificate.

- Aug. 5. Received cash, \$625, in payment of the second installment of the preferred stock subscribed on July 5.
8. Received subscriptions for 25 shares of preferred stock at par value. Received half of the subscriptions in cash. The remainder was to be collected on September 30.
15. Received subscriptions for 10 shares of common stock at par value. Received \$25 per share as a down payment. The remainder was to be collected on September 15.
- Sept. 5. Received cash, \$625, in payment of the final installment of the preferred stock subscribed on July 5. Issued the stock certificates.
15. Received cash, \$250, in payment of the final installment of the common stock subscribed on August 15. Issued the stock certificates.
30. Received cash, \$625, in payment of the final installment of the preferred stock subscribed on August 8. Issued the stock certificates.

Instructions: (1) Forms required: (a) cash receipts journal, (b) cash payments journal, and (c) general journal.

(2) Record in the appropriate journals the entries required for the above transactions.

Exercise 5, Incorporating a Partnership

R. E. Bahr and M. J. Berg were partners operating the University Cafe. Their balance sheet on September 30 of the current year is shown below:

UNIVERSITY CAFE BALANCE SHEET, SEPTEMBER 30, 19--

<i>Assets</i>		<i>Liabilities</i>	
Cash	465 50	Notes Payable	500 —
Accounts Receivable	250 —	Accounts Payable	375 95
Food Inventory	1,432 80	Total Liabilities	875 95
Supplies	225 45		
Kitchen Equipment	3,200. —		
Less Res. for Depr. of Kitchen Equip.	160. — 3,040 —		
Dining Room Equip.	4,350. —		
Less Res. for Depr. of Dining Rm. Eq.	217. 50 4,132 50		
Total Assets	9,546 25		
		<i>Proprietorship</i>	
		R. E. Bahr, Capital	5,780. 20
		M. J. Berg, Capital	2,890. 10
		Total Proprietorship	8,670 30
		Total Liabilities and Pro- rietorship	9,546 25

The partners divided profits and losses according to their capital ratio. Mr. Bahr received two thirds of the profits and Mr. Berg received one third.

In order to establish a chain of small restaurants, the partners decided to incorporate their business under the name of University Cafes, Inc. They obtained subscribers and were granted a charter. The charter provided for a total authorized capital stock of \$25,000 consisting of 150 shares of common stock with a par value of \$100 a share and 100 shares of 6 per cent preferred stock with a par value of \$100 a share.

The organizers agreed that the partners of the University Cafe were to receive a total of 90 shares of common stock for their ownership in the business. The corporation was to take over the assets and the liabilities of the partnership. Miss Bahr was to receive 60 shares and Miss Berg was to receive 30 shares. The other organizers purchased 80 shares of the preferred stock at par value.

Instructions: (1) Record the goodwill allowed to the partners on the partnership books as of September 30.

(2) Close the partnership books as of September 30.

(3) Open the corporation books as of October 1.

After you have completed the exercises, check your solutions with the answers given on pages 146 and 147 of this book. If your solutions do not correspond to the printed answers, go over them carefully until you are able to find your errors and correct them. When you have correct solutions for all the exercises, you are ready to begin the study of Chapter 3.

CHAPTER 3

CORPORATE RECORDS

Transactions of a Corporation. Many of the transactions completed by a corporation are similar to those completed by a single proprietorship or a partnership. The transactions completed with customers, creditors, and employees are ordinarily the same regardless of the type of organization. Transactions completed with the stockholders relative to the capital stock of the corporation are peculiar to the corporation. Special records and accounts are required by the corporation to record these transactions.

Subscription Book. After the organization procedure for Shea, Burns & Co. had been completed and operations had begun, the incorporators realized that they needed more capital. They decided to sell preferred stock on the installment plan, with each purchaser paying \$30 per share at the time the subscription is taken and \$10 per share each month thereafter until the total value of each share, \$100, is paid. The officers agreed to solicit subscriptions for the preferred stock.

Whenever a subscription for capital stock was received, the investor was required to sign a blank known as a *subscription blank*. One of the subscription blanks used by Shea, Burns & Co. is shown below:

SUBSCRIPTIONS					
<p>We, the undersigned, hereby subscribe for the number of shares of stock in the corporation known as SHEA, BURNS & COMPANY set opposite our names, and agree to pay for same <u>on the installment plan, paying \$30 a share as the down payment at the time the subscription is taken and \$10 a share each month thereafter until the total value of each share is paid.</u></p>					
DATE	No. OF SHARES	CLASS OF STOCK	TOTAL VALUE	NAME	ADDRESS
Jan 4	10	Preferred	\$1,000	L. A. Coon	165 Shady Lane Rochester, N. Y.
6	25	Preferred	\$2,500	Samuel Langley	1212 North Street Oran, N. Y.
8	15	Preferred	\$1,500	C. D. Reed	4876 Mark St. Buffalo, N. Y.

ILLUSTRATION 8, SUBSCRIPTION BLANK

The subscription blank was a contract by which the subscriber agreed to purchase a definite number of shares of capital stock in the corporation. It contained space for the following information: the terms of payment; the date; the number of shares, the class, and the total value of the stock subscribed for; and the name and the address of each subscriber. Each blank contained space for several subscriptions.

When a subscription blank was turned over to the bookkeeper along with the down payment, it was bound in a book with all of the other subscription blanks. The book that contained the subscription blanks was known as the *subscription book*.

The subscription book provided the information for recording the subscriptions receivable in the general journal. At the end of the month the subscription blanks in the subscription book were totaled. The total value of the preferred stock subscriptions receivable was found to be \$15,000. An entry was therefore made in the general journal debiting Subscriptions Receivable and crediting Capital Stock Subscribed, Preferred for \$15,000. If subscriptions had been received for common stock, the account Capital Stock Subscribed, Common would have been credited for the value of all common stock subscriptions.

Subscription Cash Record. Each receipt of cash from subscribers was recorded in a special memorandum book known as a *subscription cash record*. The down payments received from subscribers during January were recorded in the subscription cash record as shown below:

SUBSCRIPTION CASH RECORD						PAGE 1
DATE	NAME	ADDRESS	POST REF	COMMON	PREFERRED	
Jan 11 '24	L. P. Brown	Suburban, Ill.			300	
6	J. J. Brown	Suburban, Ill.			750	
31	J. J. Brown	Suburban, Ill.			200	
					1,250	

ILLUSTRATION 9, SUBSCRIPTION CASH RECORD

A similar record was made in the subscription cash record each time cash was received as a down payment or as an installment on a subscription. This memorandum cash record therefore contained a record of all cash received from subscribers. At the end of each month the amount columns of the subscription cash record were totaled. An entry was then made in the cash receipts journal debiting Cash and crediting Subscriptions Receivable for the total of the cash received from subscribers.

Each subscription in the subscription book is posted to the debit of an account in the subscribers' ledger, and each entry in the subscription cash record is posted to the credit of an account in the subscribers' ledger. The subscribers' ledger is a subsidiary ledger controlled by the subscriptions receivable account in the general ledger. The sum of the balances of the subscribers' accounts in the subscribers' ledger should at all times equal the balance of the subscriptions receivable account in the general ledger. Whenever the posting has been completed, the subscribers' ledger shows for each subscriber the number of shares and the class of stock subscribed, the payments made, and the balance due.

Stock Certificate Book. When the entire amount of the subscription has been paid by the investor, a stock certificate is issued to him to indicate his ownership in the corporation. Blank stock certificates are usually bound in a book called a *stock certificate book*.

On August 4, L. A. Coon paid the final installment of \$100 on his subscription for ten shares of preferred stock. The stock certificate prepared by the officers of Shea, Burns & Co. is illustrated below:



ILLUSTRATION 11, STOCK CERTIFICATE

Stock Transfer. Each stockholder has the right to sell his stock without obtaining permission from the other stockholders or from the officers of the corporation. It is necessary, however, for the seller to give the secretary of the corporation written authority to transfer his stock to the purchaser on the books of the corporation. A special form known as a *stock transfer* is provided on the back of each stock certificate for this authorization. The illustration at the right shows the transfer form on the back of the stock certificate illustrated on page 30.

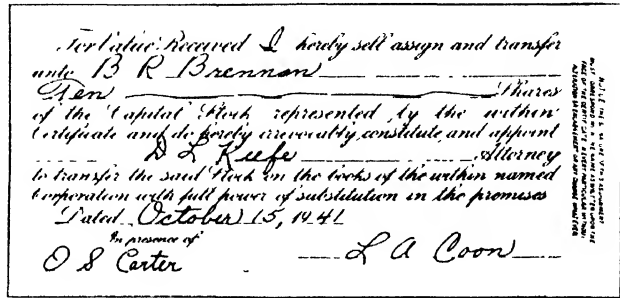


ILLUSTRATION 13, STOCK TRANSFER

L. A. Coon, the holder of the stock certificate, sold his ten shares of stock to B. R. Brennan. The transfer on the back of Mr. Coon's stock certificate indicated that he directed the corporation to transfer this stock to Mr. Brennan.

B. R. Brennan received from Mr. Coon the stock certificate with the transfer indicated on the back. He presented the certificate to the secretary of the corporation, D. L. Keefe. A new stock certificate was prepared and was given to Mr. Brennan.

If only a part of the total shares represented by a stock certificate is to be transferred, two new certificates are prepared by the corporation. The original owner receives a certificate for the number of shares he still owns. The purchaser receives a certificate for the number of shares that he bought.

When the transfer was completed, a new account was opened in the stockholders' ledger for Mr. Brennan. It showed that he now owned ten shares of preferred stock in the corporation. Mr. Coon's account was debited for the ten shares of preferred stock that he had transferred. His account was then in balance.

Stock Transfer Book. When there are only a few stockholders, the transfers of stock may be recorded directly in the stockholders' ledger. Often, however, the transfers of stock are first recorded in a special journal known as a *stock transfer book* and are then posted to the stockholders' ledger. The stock transfer book used by Shea, Burns & Co. is illustrated on the following page.

STOCK TRANSFER BOOK

PAGE 1

DATE	SERIAL NO. OF CANCELED CERTIFICATE	NO. OF SHARES	POST REF	BY WHOM SURRENDERED	TO WHOM ISSUED	POST REF	SERIAL NO. OF NEW CERTIFICATE	NO. OF SHARES
1941 Oct 15	P3	10	✓	L. A. Green	B. R. Brennan	✓	P18	10
Nov 8	P1	125	✓	R. F. Lashin	R. F. Lashin	✓	P20	100
					J. D. Hoffman	✓	P21	25
Dec 4	P2	10	✓	James B. Green	W. E. Burns	✓	P4	10

ILLUSTRATION 14, STOCK TRANSFER BOOK

Earned Surplus and Capital Surplus. The corporation profits resulting from the regular operations of the business are referred to as *earned surplus*. These profits are recorded in a special capital account with the title *Surplus*. The dividends of a corporation should be declared only from earned surplus.

Increases in the capital of a corporation resulting from capital stock transactions with its stockholders are referred to as *capital surplus*. Capital surplus may be obtained by the purchase and resale by the corporation of its own stock, by assessments levied against stockholders, or by donations from stockholders. It is usually desirable to have the books indicate the source of all capital surplus. Special accounts for each source of increase are therefore usually maintained. These accounts may have titles such as *Donated Surplus*, *Paid-In Surplus*, and *Premium on Capital Stock*. Capital surplus is not due to the regular operations of the business and should not be distributed to the stockholders as dividends.

Reacquired or Treasury Stock. When not prohibited by law, corporations sometimes purchase some of their own stock. Many corporations sell stock to employees with the agreement to repurchase the stock when the holder leaves the employ of the company. The stock that has been issued and that is later reacquired by the corporation is referred to as *reacquired stock* or *treasury stock*. Reacquired stock is usually recorded at its par value in a special account with the title *Treasury Stock*. As the reacquired stock decreases the total number of shares of stock outstanding, the treasury stock account is known as a capital valuation account. It is classified as a *minus proprietorship*.

On June 15, Shea, Burns & Co. bought at par value five shares of common stock from R. F. Gregg, an employee, when he left the employment of the corporation. The entry shown on the following page was made in the cash payments journal to record this transaction.

CASH PAYMENTS JOURNAL

Page 9

Date	Account Debited	Explanation	Post. Ref.	General Ledger Dr.	Accounts Payable Dr.	Net Cash Cr.
15	Treasury Stock Common	5 shares, par value \$100		500—		500—

When this entry was posted, the account Treasury Stock, Common had a debit balance of \$500. The debit balance indicated that the corporation held \$500 worth of its own stock. It indicated a decrease of \$500 in the amount of stock outstanding.

Mr. Gregg's stock certificate was canceled. His account in the stockholders' ledger was also canceled. The date, the word "Canceled," and the number of shares canceled were written in his account to show that it was closed.

On June 19 the corporation sold two shares of the treasury stock at par value to R. Eastman, who replaced Mr. Gregg in the employ of the corporation. A stock certificate was issued to Mr. Eastman and the appropriate records were made in the stockholders' ledger. The following entry was made in the cash receipts journal to record this transaction:

CASH RECEIPTS JOURNAL

Page 7

Date	Account Credited	Explanation	Post. Ref.	General Ledger Dr.	Accounts Rec. Cr.	Net Cash Dr.
19	Treasury Stock, Common	2 shares, par value \$100		200—		200—

The account Treasury Stock, Common was credited to indicate the decrease in the amount of the treasury stock held by the corporation. The debit balance of Treasury Stock, Common now showed the amount of the treasury stock held by the corporation. The difference between the sum of the credit balances of the two capital stock accounts and the debit balance of Treasury Stock, Common was the amount of the outstanding capital stock.

Donated Treasury Stock. In some instances corporations find themselves short of working capital. To enable the corporation to obtain additional cash, the stockholders may donate to the corporation for resale a part of the stock that they own.

When stock is donated to the corporation, an entry is made debiting *Treasury Stock* and crediting a special capital surplus account with the

title *Donated Surplus* for the par value of the stock. When the treasury stock is sold, the cash account is debited for the amount received and the treasury stock account is credited for the par value of the shares sold. Donated Surplus is debited or credited for the difference between the par value of the shares and the cash received for them. It is debited if the amount of the cash is less than the par value and is credited if the amount of the cash is more than the par value. The balance of the donated surplus account is a credit balance that represents a part of the proprietorship.

Corporation Bonds. Corporations sometimes desire to secure additional capital for the expansion of the business without increasing the capital stock. The corporation may desire to borrow a large sum of money for a long period of time, for which it must offer security, such as a mortgage. As large loans are difficult to obtain from one bank or one individual, corporations frequently divide the total amount of the loan into units of from \$100 to \$1,000. Each unit of the loan is represented by an interest-bearing negotiable instrument known as a *bond*. A bond is a written promise of a corporation to pay interest at stated intervals and the entire principal at maturity. Most bonds are for a long period of time, usually from ten to fifty years.

Obtaining cash by selling bonds is referred to as *floating a loan*. All of the bonds representing the total amount of the loan are referred to as the *bond issue*. When a corporation wishes to float a loan, it usually executes a mortgage in favor of a bank, known as the *trustee*. The bonds are usually sold to a security dealer or underwriter who then sells the individual bonds to the public.

Recording a Bond Issue. On July 1 the board of directors of The Atlas Steel Corporation decided to float a loan for \$100,000 to construct a new warehouse. They issued 5 per cent interest-bearing first mortgage bonds with a par value of \$500. The bonds were to mature in ten years. The issue was sold at par value to a local security dealer.

The entry in the cash receipts journal required to record the sale of the bond issue was as follows:

CASH RECEIPTS JOURNAL

Page 8

Date	Account Credited	Explanation	Post. Ref.	General Ledger Cr.	Accounts Rec. Cr.	Net Cash Dr.
1941 July 1	Bonds Payable	Sale of issue of 5% bonds at par		100,000—		100,000—

When this entry was posted, the new account *Bonds Payable* had a credit balance of \$100,000. This balance represented the corporation's promise to pay the bondholders \$100,000 ten years after the date of issue. As the promise to pay was for more than one year, the bonds payable account was classified as a *fixed liability*.

Interest on Bonds Payable. The interest on the bonds issued by The Atlas Steel Corporation was payable semiannually. Each bond contained coupons for the amounts of the semiannual interest. The owners of the bonds removed the coupons when the interest was due and deposited them at their local banks, which sent them to the trustee bank for payment.

Twice a year the corporation sent a check for \$2,500 to the trustee bank to pay the semiannual interest on the bonds. The entry to record this payment of interest on December 31 was as follows:

CASH PAYMENTS JOURNAL						Page 17
Date	Account Debited	Explanation	Post. Ref.	General Ledger Dr.	Accounts Payable Dr.	Net Cash Cr.
31	Interest Expense	Semiannual interest on bonds		2,500—		2,500—

Bond Sinking Fund. In order to make the bond issue attractive to prospective purchasers, The Atlas Steel Corporation agreed to set aside one tenth of the total bond issue each year during the term of the loan. The amount set aside to retire the bond issue at maturity was referred to as a *bond sinking fund*.

On December 31 the following entry was made in the cash payments journal to record the semiannual payment to the trustee for the sinking fund:

CASH PAYMENTS JOURNAL						Page 17
Date	Account Debited	Explanation	Post. Ref.	General Ledger Dr.	Accounts Payable Dr.	Net Cash Cr.
31	Bond Sinking Fund	Semiannual payment to trustee		5,000—		5,000—

When this entry was posted, the balance of the account *Bond Sinking Fund* showed that \$5,000 had been paid to the trustee to provide for the

repayment of one twentieth of the bonds issued. The bond sinking fund account is a current asset. It is usually shown on the balance sheet immediately preceding the fixed assets under the caption "Long-Term Investments."

Ten years later when the bonds of The Atlas Steel Corporation mature, the trustee bank will use the balance in the bond sinking fund to retire the bonds still outstanding. At that time The Atlas Steel Corporation will make the following entry in the general journal to record the retirement of the entire bond issue:

30	Bonds Payable	100,000—	
	Bond Sinking Fund		100,000—
	Retired issue of first mortgage bonds.		

Corporation Minute Book. The stockholders of a corporation are required to meet annually. Their chief duty is to elect the board of directors that conducts the operations of the business. It may be necessary for the board of directors to meet frequently during the year.

The secretary of the corporation maintains a written record of the proceedings of all stockholders meetings and of all meetings of the board of directors. These records of the proceedings of the meetings are referred to as the *minutes of the meetings* and are kept in a *minute book*.

When a bound memorandum book is used for the minute book, each page of the book is used consecutively. No blank pages are left between the records of each meeting. This plan is followed to avoid the possibility of the insertion of a record of a meeting that may not have occurred. Loose-leaf minute books are often used so that the entries may be made on a typewriter. In such cases each page is watermarked or is signed by the president and the secretary to prevent the possibility of insertions or substitutions.

The first few pages of the minute book usually contain a copy of the charter and the bylaws. A few additional pages may be left blank to provide for any amendments that may be made to these documents.

STUDY GUIDE 3

Complete Study Guide 3 on pages 15 and 16 of your working papers. If you are doubtful about an answer, reread the chapter until you find the correct answer; then compare your answers with those on page 148 of this book. Refer to the printed answers only after you have made a serious effort to answer all questions.

WRITTEN EXERCISES

Complete the following exercises, using pages 17 to 24 of your working papers. If you are doubtful about the correct form of an entry, study the illustrations in this chapter.

Exercise 6, Sale and Transfer of Stock

The Lang Furniture Co. began business on January 2 of the current year with an authorized capital stock of \$50,000. The corporation issued only common stock with a par value of \$100. The following transactions with stockholders were selected from those completed during January:

Jan. 2. Received cash, \$32,500, from the organizers in full payment of their subscriptions as follows:

C. S. Lang, 731 Maple Lane, Duluth, Minnesota, 150 shares, \$15,000

N. B. Hogan, 127 Chalet Avenue, St. Paul, Minnesota, 100 shares, \$10,000

F. X. Reilly, 4289 Elm Street, Duluth, Minnesota, 75 shares, \$7,500

Issued certificates Nos. 1, 2, and 3.

6. Received cash, \$500, from G. C. Haas, 1532 Superior Avenue, Duluth, Minnesota, in payment for 5 shares of stock. Issued certificate No. 4.

11. Received cash, \$900, and a subscription blank for subscriptions as follows:

M. A. Fiorita, 3466 Orchard Street, Duluth, Minnesota, subscribed for 10 shares at par value.

J. L. Gardiner, 1734 Greer Avenue, Minneapolis, Minnesota, subscribed for 8 shares at par value.

Collected an initial installment of \$50 a share from each subscriber. The remainder was to be collected in two installments of \$25 each, payable on the last day of the month. (Since a subscription book is not being kept, post the individual items and make the entry for the total subscriptions at once from the information given here.)

15. Received cash, \$100, and a subscription for 2 shares of stock at par value from E. B. Fritz, 876 Bayview Drive, Duluth, Minnesota. The remainder was to be collected on January 30.

17. L. O. Cooper, 4334 Fisher Road, Duluth, Minnesota, presented certificate No. 4 properly endorsed by G. C. Haas. The stock was to be transferred to Mr. Cooper. Issued certificate No. 5 to Mr. Cooper.

21. F. X. Reilly presented his certificate properly endorsed and authorizing the transfer of 5 shares to M. F. Conforti, 212 Vine Street, Duluth, Minnesota. Issued two new certificates, Nos. 6 and 7.

Jan. 30. Received the final installment, \$100, on E. B. Fritz's stock subscription. Issued certificate No. 8.

31. Received the second installment on the stock subscriptions as follows: M. A. Fiorita, \$250, and J. L. Gardiner, \$200.

Instructions: (1) Forms required: (a) cash receipts journal, (b) subscription cash record, (c) stock transfer book, (d) general journal, (e) general ledger, (f) subscribers' ledger, and (g) stockholders' ledger.

(2) Record the transactions in the appropriate books, and post the individual items and the totals at the end of the month.

(3) Prove the subscribers' ledger and the stockholders' ledger.

Exercise 7, Treasury Stock

The Gem Book Bindery, Inc. had a total authorized capital stock of \$25,000. The corporation issued only common stock with a par value of \$50 a share. On January 2 of the current year the credit balance of the capital stock account was \$24,000.

The following transactions were selected from those completed by the corporation during the current year:

May 16. Gave M. H. Boutelle, a former employee, a check for \$200 for four shares of stock purchased from him at par value. Canceled certificate No. 182.

May 31. Received cash, \$100, from J. S. Swanson, a new employee, for two shares of treasury stock. Issued certificate No. 201.

June 30. The stockholders donated to the corporation 100 shares of stock so that the corporation could secure additional capital.

July 15. Received cash, \$50, for one share of treasury stock sold to G. B. Sullivan, an employee. Issued certificate No. 202.

Instructions: (1) Forms required: (a) cash receipts journal, (b) cash payments journal, and (c) general journal.

(2) Record the transactions in the appropriate journals.

Exercise 8, Corporation Bonds

At the beginning of the annual fiscal period on January 2, the Howard Steel Co., Inc. received \$50,000 in cash from a five-year, 6 per cent bond issue. The mortgage provided that a bond sinking fund was to be set up in which \$10,000 would be set aside at the end of each of five years.

Instructions: (1) Forms required: (a) cash receipts journal, (b) cash payments journal, and (c) general journal.

(2) Record the bond issue on January 2 of the current year.

(3) Record the annual interest payments and the amounts transferred

to the bond sinking fund for each of the five years beginning with December 31 of the current year.

(4) Record the payment of the bond issue at maturity.

After you have completed the exercises, check your solutions with the solutions given on pages 148 and 149 of this book. If your solutions do not correspond to the printed answers, go over them carefully until you are able to find your errors and correct them. When you have correct solutions for the exercise, you are ready to begin the study of Chapter 4.

CHAPTER 4

CORPORATE FINANCIAL REPORTS

Work At the End of the Fiscal Period. The stockholders of a corporation usually hold an annual meeting to elect a board of directors and to formulate business policies for the corporation. Like the owners of a single proprietorship or a partnership, stockholders desire information about the financial condition of the corporation at the end of each fiscal period.

So that the stockholders may have a picture of the financial status of the corporation and a report of the operations for the preceding fiscal period, the accountant must summarize the records contained in the corporation ledger. The summarizing work of the accountant for the corporation is similar to that completed for a single proprietorship or a partnership at the end of the fiscal period. The work completed by the accountant at the end of the fiscal period may be outlined as follows:

- (1) Preparing a work sheet as a basis for the financial reports and the adjusting and the closing entries.
- (2) Preparing a profit and loss statement and a balance sheet to show the financial condition of the business.
- (3) Recording and posting the adjusting and the closing entries to make the ledger accounts show the same information as the balance sheet.
- (4) Balancing and ruling the ledger accounts in preparation for the records of the next fiscal period.
- (5) Taking a post-closing trial balance to prove that the ledger is in balance at the end of the current fiscal period.
- (6) Recording and posting the reversing entries in preparation for records of the next fiscal period.

The first step in the work at the end of the fiscal period, the preparation of the work sheet, is a preliminary step to the preparation of the statements. The second step, the preparation of the profit and loss statement and the balance sheet, completes the reports to the stockholders and the board of directors. The remaining steps are the bookkeeping procedures to prepare the books for the next fiscal period.

The Corporate Work Sheet. As the first step in preparing the financial reports of the corporation, the accountant for Shea, Burns & Co. planned the work at the end of the fiscal period on a ten-column work sheet. The work sheet prepared for Shea, Burns & Co. on December 31 is shown on the following pages.

Shea, Burns & Company Work Sheet for Year Ended December 31, 1941									
Account-Title	Dr.	Cr.	Total Balance	Dr.	Cr.	adjustment	Dr.	Cr.	Final Balance and Statement Balance Sheet
Cash	1,867,145		1,867,145						867,145
City Cash	2,100		100						100
Accounts Receivable	3,417,218		4,172,18						4,172,18
Subscriptions Receivable	5,1500		1,500						1,500
Merchandise Inventory	6,15500		380,321.5						380,321.5
Store Supplies	21,230,715		1,518,17						788,98
Office Supplies	22,41,920		207,15						212,05
Prepaid Insurance	23,1750		4,580						1,170
Office Equipment	31,600		9						600
Repair Expense Office Equip	32		30						60
Store Equipment	33,3250		162,50						32,50
Repair Expense Store Equip	34		107,15						26,965
Delivery Equipment	35,3750		750						37,50
Auto Repair and Oil Equip	36		250						1,000
Buildings	37,30000		30000						30000
Land	39,15000		15000						15000
Goodwill	41,3084		3084						3084
Organization Expense	42,356		356						356
Notes Payable	51	237,230		237,230					237,230
Accounts Payable	53	137,5416		137,5416					137,5416
Due to Capital and Res	54	6960		6960					6960
Retained Earnings	55	4175		4175					4175
Notes Payable	56	9304		9304					9304
Sales Tax Payable	58	117315		117315					117315
Mortgage Payable	61	10000		10000					10000
Capital Stock Common	71	35000		35000					35000
Preferred Stock Common	72	500		500					500
Capital Stock Preferred	73	900		900					900
Retained Earnings	74	32500		32500					32500
Income Statement	75	100		100					100
Expenses Statement	76	2100		2100					2100

Capital	8	107,447.6	107,447.6	197,447.6
Preferred stock	100,000.00	100,000.00	100,000.00	100,000.00
Common stock	100,000.00	100,000.00	100,000.00	100,000.00
Retained earnings	100,000.00	100,000.00	100,000.00	100,000.00
Accumulated depreciation	100,000.00	100,000.00	100,000.00	100,000.00
Deferred income taxes	100,000.00	100,000.00	100,000.00	100,000.00
Other assets	100,000.00	100,000.00	100,000.00	100,000.00
Liabilities	100,000.00	100,000.00	100,000.00	100,000.00
Accounts payable	100,000.00	100,000.00	100,000.00	100,000.00
Notes payable	100,000.00	100,000.00	100,000.00	100,000.00
Long-term debt	100,000.00	100,000.00	100,000.00	100,000.00
Other liabilities	100,000.00	100,000.00	100,000.00	100,000.00
Total	100,000.00	100,000.00	100,000.00	100,000.00
Income statement	100,000.00	100,000.00	100,000.00	100,000.00
Operating income	100,000.00	100,000.00	100,000.00	100,000.00
Interest expense	100,000.00	100,000.00	100,000.00	100,000.00
Income taxes	100,000.00	100,000.00	100,000.00	100,000.00
Net income	100,000.00	100,000.00	100,000.00	100,000.00
Balance sheet	100,000.00	100,000.00	100,000.00	100,000.00
Assets	100,000.00	100,000.00	100,000.00	100,000.00
Liabilities	100,000.00	100,000.00	100,000.00	100,000.00
Equity	100,000.00	100,000.00	100,000.00	100,000.00
Total	100,000.00	100,000.00	100,000.00	100,000.00
Income statement	100,000.00	100,000.00	100,000.00	100,000.00
Operating income	100,000.00	100,000.00	100,000.00	100,000.00
Interest expense	100,000.00	100,000.00	100,000.00	100,000.00
Income taxes	100,000.00	100,000.00	100,000.00	100,000.00
Net income	100,000.00	100,000.00	100,000.00	100,000.00
Balance sheet	100,000.00	100,000.00	100,000.00	100,000.00
Assets	100,000.00	100,000.00	100,000.00	100,000.00
Liabilities	100,000.00	100,000.00	100,000.00	100,000.00
Equity	100,000.00	100,000.00	100,000.00	100,000.00
Total	100,000.00	100,000.00	100,000.00	100,000.00

ILLUSTRATION 15, WORK SHEET OF A CORPORATION

Analysis of the Corporate Work Sheet. The work sheet illustrated on pages 42 and 43 was prepared at the end of the first annual fiscal period of the corporation of Shea, Burns & Co. The work sheet provided a "blue print" for all of the work at the end of the fiscal period. The first two columns, headed *Trial Balance*, proved the equality of the debits and the credits in the ledger. As this was the end of the first fiscal period, the accounts Reserve for Bad Debts, Reserve for Depreciation of Buildings, and Surplus had no balances in the ledger and therefore did not appear on the trial balance.

The adjustments necessary to bring the ledger accounts up to date were planned in the third and fourth columns of the work sheet, headed *Adjustments*. The equality of the ledger accounts after the adjustments had been made was proved by the footings of the fifth and sixth columns, headed *Adjusted Trial Balance*. The information necessary to prepare the profit and loss statement was assembled in the seventh and eighth columns, headed *P. & L. Statement*. The information necessary to prepare the balance sheet was assembled in the last two columns, headed *Balance Sheet*.

After the last four columns were totaled, the total net profit before deducting Federal income taxes was calculated on a separate sheet of paper by subtracting the footing of the profit and loss statement debit column, \$159,820.53, from the footing of the credit column, \$169,479.03. The total net profit before deducting Federal income taxes was found to be \$9,658.50. The calculation of this net profit was proved by subtracting the footing of the balance sheet credit column, \$101,628.31, from the footing of the debit column, \$111,286.81. The difference between the footings of the two balance sheet columns, \$9,658.50, was equal to the difference between the footings of the two profit and loss statement columns, \$9,658.50. The amount of the total net profit before deducting Federal income taxes, \$9,658.50, was therefore assumed to be correct.

Corporate Income Taxes. Of the three types of business organizations, only the corporation must pay a Federal income tax. Federal income taxes of a corporation are not considered an operating expense of the business but are considered a division of the profits. The amount of the tax must be estimated at the end of the year and must be deducted from the net profits before any distribution of income is made to the stockholders. In other words, the profits of a corporation have two owners, the Federal government and the corporation.

The total net profit of Shea, Burns & Co., \$9,658.50, was divided between the Federal government and the corporation. The accountant

for Shea, Burns & Co. estimated that the amount of the Federal income taxes for the current year would be \$1,411.16. The profit for the corporation itself would then be \$8,247.34 (total net profit, \$9,658.50—Federal income taxes, \$1,411.16). After the division of the profit was calculated, the two amounts were recorded on the work sheet in the profit and loss statement debit column and in the balance sheet credit column in the manner shown on pages 42 and 43. The columns were then added to prove the accuracy of the calculations. Since the totals of the profit and loss statement debit and credit columns were equal and the totals of the balance sheet debit and credit columns were equal, the calculations of the division of the total net profit were assumed to be correct.

The Corporate Profit and Loss Statement. The profit and loss statement prepared for Shea, Burns & Co. is illustrated on page 46. It was prepared from the profit and loss statement columns of the work sheet in the same manner as the profit and loss statement of a single proprietorship or a partnership. The statement contained a detailed analysis of the income, costs, and expenses of the business for the fiscal period ended December 31.

It should be noted that the expenses were analyzed into two major groups, *Selling Expenses* and *Administrative Expenses*. The selling expenses were those that occurred directly in the process of selling the merchandise. The administrative expenses were general expenses that arose through the operation of the business. Such an analysis and grouping of expenses is desirable in making comparisons from one year to another and in making comparisons with other parts of the profit and loss statement when future operations are being planned.

Federal income tax returns are usually prepared from the profit and loss statement. The Federal income tax laws do not consider Federal income taxes as deductions from gross income. The government considers the income taxes as the government's share of the net profits. The estimated Federal income taxes must therefore be shown at the end of the profit and loss statement as a distribution of net profits and not as an operating expense.

The Corporate Balance Sheet. The balance sheet of a corporation is similar to that of a single proprietorship or a partnership except for the proprietorship section. The balance sheet of Shea, Burns & Co. on December 31 is shown on page 47. This balance sheet was a picture of the assets, liabilities, and proprietorship of the corporation at the end of the fiscal year ended December 31.

SHEA, BURNS & COMPANY
PROFIT AND LOSS STATEMENT FOR YEAR ENDED DECEMBER 31, 1941

Income from Sales:		
Gross Sales	\$159,744.76	
Less Returned Sales and Allowances	<u>1,345.60</u>	
Net Sales		\$158,399.16
Cost of Merchandise Sold:		
Merchandise Inventory, January 1, 1941	\$ 15,500.00	
Purchases	\$154,782.18	
Less Returned Purchases and Allowances	<u>7,321.40</u>	
Net Purchases	\$147,460.78	
Add Transportation on Purchases	<u>4,721.18</u>	
Net Cost of Merchandise Purchased	152,181.96	
Total Cost of Merchandise Available for Sale	\$167,681.96	
Less Merchandise Inventory, December 31, 1941	<u>38,032.15</u>	
Cost of Merchandise Sold		<u>129,649.81</u>
Gross Profit on Sales		\$ 28,749.35
Operating Expenses:		
Selling Expenses:		
Sales Salaries	\$7,616.50	
Delivery Expense	362.18	
Bad Debts	49.12	
Store Supplies Used	1,518.17	
Depreciation of Store Equipment....	162.50	
Depreciation of Delivery Equipment.	750.00	
Miscellaneous Selling Expense	<u>218.47</u>	
Total Selling Expenses		\$ 10,676.94
Administrative Expenses:		
Office Salaries	\$6,300.00	
Social Security Taxes	180.93	
State Unemployment Contributions ..	375.75	
Property Taxes	1,057.50	
Sales Taxes	327.48	
Office Supplies Used	207.15	
Expired Insurance	580.00	
Depreciation of Office Equipment ..	30.00	
Depreciation of Buildings	900.00	
Miscellaneous Administrative Expense	<u>192.14</u>	
Total Administrative Expenses		<u>10,150.95</u>
Total Operating Expenses		<u>20,827.89</u>
Net Profit from Operations		\$ 7,921.46
Financial Income:		
Discount on Purchases		<u>2,412.87</u>
Gross Income		\$ 10,334.33¹
Financial Expense:		
Interest Expense	\$ 600.70	
Discount on Sales	<u>75.13</u>	
Total Financial Expense		<u>675.83</u>
Net Income Before Deducting Income Taxes		\$ 9,658.50
Less Provision for Federal Income Taxes		<u>1,411.16</u>
Net Income After Deducting Federal Income Taxes		<u>\$ 8,247.34</u>

SHEA, BURNS & COMPANY
BALANCE SHEET, DECEMBER 31, 1941

Assets

Current Assets:		
Cash	\$ 8,671.45	
Petty Cash	100.00	
Accounts Receivable	\$4,172.18	
Less Reserve for Bad Debts	49.12	4,123.06
Subscriptions Receivable	1,500.00	
Merchandise Inventory	38,032.15	
Total Current Assets		\$ 52,426.66
Deferred Charges:		
Store Supplies	\$ 788.98	
Office Supplies	212.05	
Prepaid Insurance	1,170.00	
Total Deferred Charges		2,171.03
Fixed Assets:		
Office Equipment	\$ 600.00	
Less Res. for Depr. of Office Equip...	60.00	\$ 540.00
Store Equipment	3,250.00	
Less Res. for Depr. of Store Equipment	269.65	2,980.35
Delivery Equipment	3,750.00	
Less Res. for Depr. of Delivery Equip.	1,000.00	2,750.00
Buildings	30,000.00	
Less Reserve for Depr. of Buildings...	900.00	29,100.00
Land	15,000.00	
Total Fixed Assets		50,370.35
Intangible Assets:		
Goodwill	\$ 3,084.00	
Organization Expenses	356.00	
Total Intangible Assets		3,440.00
Total Assets		<u>\$108,408.04</u>

Liabilities

Current Liabilities:		
Notes Payable	\$ 2,372.30	
Interest Payable	287.14	
Accounts Payable	13,754.16	
Federal Old-Age Insurance Taxes Payable	69.60	
Federal Unemployment Taxes Payable	41.75	
State Unemployment Contributions Payable	93.94	
Property Taxes Payable	1,057.50	
Provision for Federal Income Taxes	1,411.16	
Sales Taxes Payable	1,173.15	
Total Current Liabilities		\$ 20,260.70
Fixed Liabilities:		
Mortgage Payable		10,000.00
Total Liabilities		\$ 30,260.70

Proprietorship

Capital Stock, Common	\$35,000.00	
Less Treasury Stock, Common	500.00	\$34,500.00
Capital Stock Subscribed, Common		900.00
Capital Stock, Preferred	\$32,500.00	
Less Treasury Stock, Preferred	100.00	32,400.00
Capital Stock Subscribed, Preferred		2,100.00
Surplus		8,247.34
Total Proprietorship		78,147.34
Total Liabilities and Proprietorship		<u>\$108,408.04</u>

When the corporation purchased its land and buildings, a mortgage on the property was given to secure the loan. As the payment of the mortgage was not due for several years, the credit balance of the mortgage payable account, \$10,000, was shown on the balance sheet under the caption *Fixed Liabilities*.

The debit balance of the subscriptions receivable account, \$1,500, in the current assets section of the balance sheet was the amount to be collected from subscribers for stock subscriptions. The two capital stock subscribed accounts appeared in the proprietorship section of the balance sheet to show the increases in capital due to stock subscriptions. When collection of the subscriptions is completed, the credit balances of the two capital stock subscribed accounts will be transferred to their respective capital stock accounts.

The treasury stock account debit balances were shown as deductions from the capital stock accounts. The treasury stock accounts represented capital stock that had been issued and that had been reacquired by the corporation. The difference between the balance of each capital stock account and the balance of its treasury stock account represented the value of the stock outstanding.

The total net profit of Shea, Burns & Co., \$9,658.50, was divided between the Federal government and the corporation. The estimated Federal income taxes were based on the profits of the current fiscal year but will not be paid until a subsequent fiscal year. As the government's share has not yet been paid, the estimated amount of the Federal income taxes represents a liability of the corporation. The estimated amount of the government's share of the total net profit, \$1,411.16, is shown in the current liabilities section of the balance sheet in a special liability account entitled *Provision for Federal Income Taxes*. The corporation's share of the total net profit, \$8,247.34, is the amount of the surplus shown on the balance sheet in the proprietorship section.

Adjusting Entries for a Corporation. In order that the ledger of a corporation will show the same information as the balance sheet, adjusting entries are made in the general journal in the same manner as the adjusting entries for a single proprietorship or a partnership.

The adjusting entries prepared in the general journal of Shea, Burns & Co. on December 31 from the adjustments planned on the work sheet are shown on page 49. When these entries were posted, the asset and the liability accounts in the ledger were brought up to date. Each of these accounts showed the same information as was given on the balance sheet.

31	Bad Debts . . .	49 12	
	Reserve for Bad Debts		49 12
	To record the estimated loss on bad debts for the period.		
31	Purchases	15,500 —	
	Merchandise Inventory		15,500 —
	To transfer the beginning inventory to Purchases.		
31	Merchandise Inventory	38,032 15	
	Purchases		38,032 15
	To record the ending inventory.		
31	Store Supplies Used	1,518 17	
	Office Supplies Used .	207 15	
	Store Supplies		1,518 17
	Office Supplies		207 15
	To adjust the supplies accounts.		
31	Expired Insurance	580 —	
	Prepaid Insurance		580 —
	To adjust the prepaid insurance account.		
31	Depreciation of Office Equipment	30 —	
	Depreciation of Store Equipment	162 50	
	Depreciation of Delivery Equipment	750 —	
	Depreciation of Buildings	900 —	
	Res. for Depr. of Office Equipment		30 —
	Res. for Depr. of Store Equipment		162 50
	Res. for Depr. of Delivery Equipment		750 —
	Res. for Depr. of Buildings		900 —
	To record estimated depreciation.		
31	Interest Expense	287 14	
	Interest Payable		287 14
	Accrued interest on notes payable.		
31	Property Taxes	1,057 50	
	Property Taxes Payable		1,057 50
	Accrued property taxes.		

ILLUSTRATION 18. ADJUSTING ENTRIES OF A CORPORATION

Closing Entries for a Corporation. The entries to close the income, the cost, and the expense accounts and to divide the total net profit between the Federal government and the corporation were prepared from the data in the profit and loss statement columns of the work sheet. The closing entries for Shea, Burns, & Co. prepared on December 31 are shown on page 50.

When the first two closing entries were posted, all of the income, the cost, and the expense accounts in the corporation ledger were closed. The profit and loss summary account had a credit balance of \$9,658.50. When the third entry was posted, the profit and loss summary account was closed. The government's share of the total net profit, \$1,411.16, was transferred to the liability account Provision for Federal Income Taxes. The corporation's share of the total net profit, \$8,247.34, was transferred to the surplus account. The surplus account then had a credit balance of \$8,247.34.

31 Sales	159,744 76	
Returned Purchases and Allowances	7,321 40	
Discount on Purchases	2,412 87	
Profit and Loss Summary		169,479 03
To close all profit and loss statement accounts with credit balances.		
31 Profit and Loss Summary	159,820 53	
Returned Sales and Allowances		1,345 60
Purchases		132,250 03
Transportation on Purchases		4,721 18
Sales Salaries		7,616 60
Delivery Expense		362 18
Miscellaneous Selling Expense		218 47
Office Salaries		6,300 —
Social Security Taxes		180 93
State Unemployment Contributions		375 75
Sales Taxes		327 48
Miscellaneous Administrative Expense		192 14
Interest Expense		600 70
Discount on Sales		75 13
Bad Debts		49 12
Store Supplies Used		1,518 17
Office Supplies Used		207 15
Expired Insurance		580 —
Depreciation of Office Equipment		30 —
Depreciation of Store Equipment		162 50
Depreciation of Delivery Equipment		750 —
Depreciation of Buildings		900 —
Property Taxes		1,057 50
To close all profit and loss statement accounts with debit balances.		
31 Profit and Loss Summary	9,658 50	
Provision for Federal Income Taxes		1,411 16
Surplus		8,247 34
To close the profit and loss summary account.		

ILLUSTRATION 19. CLOSING ENTRIES FOR A CORPORATION

After the bookkeeper had completed the posting of the closing entries and the balancing and ruling of all accounts, he prepared a post-closing trial balance to prove his work. As the final step in the work at the end of the fiscal period, the bookkeeper prepared reversing entries to transfer the balances of the accrued expense accounts to the appropriate expense accounts. This was done so that all payments of accrued expenses during the next year could be recorded in the expense accounts without analyzing the payments to see which part of them belonged to the previous fiscal period. After the reversing entries were posted, the work at the end of the fiscal period was completed and the books of the corporation were ready for a new fiscal period.

Writing Off Goodwill. The board of directors of Shea, Burns & Co. met on January 10. During their meeting the members of the board of directors studied the balance sheet and the profit and loss statement for

the preceding fiscal period. They noticed that the balance sheet listed goodwill at \$3,084, the price paid for it when the partnership of Shea & Burns was incorporated.

The directors of the corporation realized that over a period of years the value of the goodwill might fluctuate with business conditions. They believed that if any goodwill existed in ten years, it would be due to the management of the corporation, not to the management of the old partnership. They believed, then, that in ten years the value of the goodwill purchased from the partnership would be very doubtful. The directors therefore decided to write off the balance of the goodwill account over a period of ten years.

In order that the corporation books would always indicate that the corporation had bought out another business, the directors decided that they should leave a balance of \$1 in the goodwill account. They therefore decided to write off \$3,083 (\$3,084 less \$1) over a period of ten years. At the end of each annual fiscal period an entry would be prepared to write off one tenth of this amount, or \$308.30.

On January 11 the bookkeeper for the corporation prepared the following entry in the general journal to write off the first installment of the goodwill:

11	Surplus	308 30	
	Goodwill		308 30
	To write off one tenth of the goodwill.		

As the Federal income tax laws do not consider goodwill written off as a deduction from gross income, the amount written off, \$308.30, was deducted from surplus and was therefore debited to the surplus account. The goodwill account was credited for \$308.30, the amount of the goodwill written off.

Writing Off Organization Expenses. The balance sheet of Shea, Burns & Co. listed organization expenses at \$356. Since organization expenses represent an intangible asset, it is a common practice to write off such expenses over a period of years. The directors of the corporation therefore decided to write off the organization expenses during a period of five years. At the end of each annual fiscal period an entry would be prepared to write off one fifth of the total organization expenses, or \$71.20.

On January 11 the bookkeeper for the corporation prepared the entry in the general journal to write off one fifth of the organization expenses as shown on the following page.

11 Surplus.....	71 20	
Organization Expenses.....		71 20
To write off one fifth of the organi- zation expenses.		

As the Federal income tax laws do not consider organization expenses written off as a deduction from gross income, the amount written off \$71.20, was debited to the surplus account. The organization expenses account was credited for \$71.20, the amount written off.

Declaring Dividends. When the directors declare a dividend, they usually prescribe a certain date, known as the *date of payment*, on which the dividends are payable. As shares of stock are freely transferable, it is necessary to know which stockholders are entitled to dividends. The directors commonly make the dividends payable to the stockholders recorded in the stockholders' ledger as of a certain date, known as the *date of record*. The date of record is usually later than the date of declaration so parties to stock transfers may have their stock properly recorded.

When the members of the board of directors of Shea, Burns & Co. met on January 10, they decided that the preferred stockholders should receive their dividend of 6 per cent of the value of the preferred stock, or \$6 a share. They therefore declared a dividend of \$6 a share payable February 15 to preferred stockholders of record February 10. They also declared a dividend of \$5 a share payable February 15 to common stockholders of record February 10. A carbon copy of the minutes of the meeting of the board of directors signed by the secretary and the president was given to the accountant as a basis for recording the declaration of the dividends.

There were 324 shares of preferred stock outstanding. The dividend of \$6 a share on preferred stock therefore amounted to \$1,944. There were 345 shares of common stock outstanding. The dividend of \$5 a share on common stock amounted to \$1,725. The entry to record the declaration of the dividends on January 10 was made in the general journal as follows:

10 | Surplus.....	3,669 —	
Preferred Dividends Payable.....		1,944 —
Common Dividends Payable.....		1,725 —
Preferred dividend of \$6 a share and common dividend of \$5 a share.		

When this entry was posted, the balance of the surplus account was decreased by \$3,669, the total amount of the dividends declared. The special liability account *Preferred Dividends Payable* had a credit balance

of \$1,944, the amount owed to preferred stockholders for dividends. The liability account *Common Dividends Payable* had a credit balance of \$1,725, the amount owed to the common stockholders for dividends.

Distributing Dividends to Stockholders. On February 15, the date of payment, Shea, Burns & Co. issued a check for \$3,669, the total amount of dividends payable, and deposited it in a special checking account for dividends. An entry was made in the cash payments journal debiting Preferred Dividends Payable for \$1,944 and Common Dividends Payable for \$1,725 and crediting Cash for the total, \$3,669.

When this entry was posted, the two dividends payable accounts were in balance and the payment of the total amount of the dividends was recorded on the corporation books. A separate dividend check was issued to each stockholder from the special dividend checking account. The special dividend checking account was used to avoid a large number of entries in the cash payments journal.

STUDY GUIDE 4

Complete Study Guide 4 on pages 25 and 26 of your working papers. If you are doubtful about an answer, reread the chapter until you find the correct answer; then compare your answers with those on page 150 of this book. Refer to the printed answers only after you have made a serious effort to answer all questions, for otherwise the study guide will not be of greatest value to you. If you have any incorrect answers, reread the part of the chapter in which those questions are discussed.

WRITTEN EXERCISE

Complete the following exercise, using pages 27 to 34 of your working papers. If you are doubtful about the correct form of an entry, study the illustrations in this chapter.

Exercise 9, Corporate Work at the End of the Fiscal Period

The account balances in the general ledger of the Rock River Hardware Co. on March 31 of the current year are given on the following page.

Cash, \$7,958.99	Capital Stock, Preferred, \$35,700
Accounts Receivable, \$16,037.46	Treasury Stock, Preferred, \$100
Reserve for Bad Debts, \$147.28	Capital Stock Subscribed, Preferred, \$8,000
Subscriptions Receivable, \$5,000	Surplus, \$2,073.14 (Cr.)
Merchandise Inventory, \$31,974.09	Sales, \$14,602.48
Store Supplies, \$303.45	Returned Sales and Allowances, \$154.35
Prepaid Insurance, \$325.40	Purchases, \$12,318.04
Store Equipment, \$1,444.80	Returned Purchases and Allowances, \$587.60
Reserve for Depreciation of Store Equipment, \$392.35	Transportation on Purchases, \$761.98
Buildings, \$15,000	Sales Salaries, \$1,300
Res. for Depr. of Buildings, \$782.50	Delivery Expense, \$202.27
Land, \$5,000	Miscellaneous Selling Expense, \$37.09
Goodwill, \$2,302.30	Office Salaries, \$575.58
Organization Expenses, \$76.85	Social Security Taxes, \$24.39
Accounts Payable, \$11,929.52	State Unemployment Contributions, \$50.64
Federal Old-Age Insurance Taxes Payable, \$37.52	Miscellaneous Administrative Expense, \$132.18
Federal Unemploy. Tax. Pay., \$5.63	Discount on Purchases, \$163.38
State Unemployment Contributions Payable, \$50.64	Discount on Sales, \$92.18
Capital Stock, Common, \$22,500	
Treasury Stock, Common, \$800	
Capital Stock Subscribed, Common, \$5,000	

The additional data needed at the end of the quarterly fiscal period are: total charge sales, \$9,372.15; additional reserve for bad debts, $\frac{1}{2}$ per cent of charge sales; merchandise inventory, \$34,152.86; store supplies inventory, \$216.76; prepaid insurance, \$244.05; annual rate of depreciation of store equipment, 10 per cent; annual rate of depreciation of buildings, 3 per cent; estimated property taxes for period, \$189.59; estimated income taxes for period, \$206.

Instructions: (1) Prepare a ten-column work sheet for the quarterly fiscal period ended March 31 of the current year.

(2) Prepare a profit and loss statement and a balance sheet.

(3) Record the adjusting and the closing entries in the general journal.

(4) Record the declaration of a dividend of \$6 a share on the 356 shares of preferred stock outstanding on March 31 and a dividend of \$2 a share on the 217 shares of common stock outstanding on March 31, payable on April 10 of the current year.

After you have completed the exercise, check your solution with the solution given on page 150 of this book. If your solution does not correspond to the printed answers, go over it carefully until you are able to find your errors and correct them. When you have the correct solution for this exercise, you are ready to begin the study of Chapter 5.

CHAPTER 5

DEPARTMENTAL PURCHASES AND SALES

Departmental Accounting. Many businesses handle more than one class of merchandise. Hardware stores may sell hardware and furniture; grocery stores may handle fresh foods, canned foods, and meats; clothing stores may handle men's clothing, women's clothing, and children's clothing. For convenience in management, these businesses are frequently divided into sections or departments. In large businesses each department may be supervised by an individual, known as a *department head*, who is responsible to the manager of the business. In small businesses one manager may supervise all of the departments.

In order to measure the efficiency of the various departments, it is desirable to have separate information about the transactions completed by each. It is therefore necessary to maintain separate accounting records for each department. In most businesses the information about the sales, the cost of sales, and the gross profit of each department is all that is desired. Some businesses, however, attempt to keep records for each department so that the sales, the purchases, and all of the expenses of each department may be computed separately. This procedure enables the business to compute the net profit for each department. If a department does not make a sufficient net profit, some reorganization may be necessary or the department may be eliminated.

Some departments of a business may be service departments or "feeder" departments. These departments may never show a profit from operations, but they are considered necessary for the successful operation of the other departments. They encourage customers to come into the store and they provide services that appeal to the customers. They thereby tend to increase the sales of all departments.

Departmental Purchases. The Hancock Lumber Company deals in lumber and other building materials, such as sand, cement, brick, etc. The books of the company are kept on a departmental basis. The lumber department is referred to as Department A. The department handling the other building materials is referred to as Department B. The company maintains a separate record of the purchases and of the transportation on purchases for each department.

On June 2 the Hancock Lumber Company received an invoice for \$355 for lumber purchased from the Henderson Mills. The invoice included \$310 for the cost of the lumber and \$45 for transportation charges. The following entry was made in the purchases journal to record this invoice:

PURCHASES JOURNAL										Page 2
Date	Account Credited	Address	Terms	Post. Ref.	Accounts Payable Cr.	Purchases, Dept. A Dr.	Trans. on Purchases, Dept. A Dr.	Purchases, Dept. B Dr.	Trans. on Purchases, Dept. B Dr.	
1941 June 2	Henderson Mills	Lakeview	2 '10, n/30		355 —	310 —	45 —			

The total amount of the invoice, \$355, was recorded in the accounts payable credit column. The cost of the lumber, \$310, was recorded in the special column for purchases for Department A. The amount of the transportation charges, \$45, was recorded in the special column for transportation charges on purchases for Department A. At the end of the month the totals of these special columns were posted to the special accounts in the general ledger entitled *Purchases, Department A* and *Transportation on Purchases, Department A*.

Each purchase invoice received by the Hancock Lumber Company was recorded in the same manner. When building materials such as sand, cement, brick, etc. were purchased, the amount of the invoice was recorded in the special column for purchases for Department B. The transportation charges on these materials were recorded in the special column for transportation charges for Department B. At the end of the month the totals of these special columns were posted to the special accounts in the general ledger entitled *Purchases, Department B* and *Transportation on Purchases, Department B*.

If one invoice included materials for both departments, the amounts applicable to each department were recorded in the appropriate columns. The Hancock Lumber Company followed a policy of allocating the transportation charges on mixed purchases to the departments according to the value of the merchandise.

When merchandise for more than one department is included on the same invoice, the transportation charges may be allocated according to the value of the merchandise, the weight, or some arbitrary method determined by the management. The method of allocation depends upon the type of the business and the desires of the management.

Departmental Returned Purchases and Allowances. On June 3 the Hancock Lumber Company received a credit memorandum for \$320.01 from the Midland Cement Company for the return of some merchandise. The following entry was made in the returned purchases and allowances journal to record this credit memorandum:

RETURNED PURCHASES AND ALLOWANCES JOURNAL							Page 19
Date	Account Debited	Explanation	Post. Ref.	Accounts Payable Dr.	Returned Purchases & Allow., Dept. A Cr.	Returned Purchases & Allow., Dept. B Cr.	
1941 June 3	Midland Cement Co.	Wrong material		320 01		320 01	

Because the return consisted of material from Department B, the amount of the credit memorandum, \$320.01, was recorded in the special column for returned purchases and allowances for Department B. At the end of the month the total of this column was posted to the special account in the general ledger entitled *Returned Purchases and Allowances, Department B*.

When lumber was returned or when an allowance for defective lumber was received, the amount of the credit memorandum was recorded in the special column for returned purchases and allowances for Department A. At the end of the month the total of this column was posted to the special account in the general ledger entitled *Returned Purchases and Allowances, Department A*.

If the purchases return or allowance affected both departments, the amount was divided between the two departmental returns and allowances columns.

Departmental Sales. The Hancock Lumber Company issued a sales invoice to each customer whether the sale was for cash or on credit. The department from which the sale was made was indicated on the carbon copy of the sales invoice that was sent to the accounting department. If merchandise was sold from both departments to the same customer, the salesman indicated the department from which each item was sold by writing the letter "A" or "B" after the description of the article.

Some businesses follow the policy of making out a separate invoice for each sale from each department. In this case, if materials from different departments are sold to one customer, the customer will receive a separate invoice for the merchandise from each department.

On June 2 the Hancock Lumber Company sold materials amounting to \$62.80 to J. H. Ewing, a contractor. Some of the materials were taken from each department. The bookkeeper made the following entry in the sales journal to record the invoice given to Mr. Ewing:

SALES JOURNAL								Pag
Date	Inv. No.	Account Debited	Address	Terms	Post. Ref.	Accounts Rec. Dr.	Sales, Dept. A Cr.	S Dept. B
1941 June	2	182 J. H. Ewing	613 Shaw St., City	Net 30 days		62 80	49 16	

The total amount of the invoice, \$62.80, was recorded in the accounts receivable debit column. The amount of the merchandise that was sold from Department A, \$49.16, was recorded in the column for sales from Department A. The amount of the merchandise that was sold from Department B, \$13.64, was recorded in the column for sales from Department B. At the end of the month the totals of these columns were posted to the special accounts in the general ledger with the titles *Sales, Department A* and *Sales, Department B*.

Departmental Returned Sales and Allowances. On June 4 the Hancock Lumber Company issued credit memorandum No. 115 for \$10.43 to the Marvin Building Company for the return of some cement that was not needed. The following entry was made in the returned sales and allowances journal to record the credit memorandum:

RETURNED SALES AND ALLOWANCES JOURNAL							Pag
Date	Cr. Memo. No.	Account Credited	Explanation	Post. Ref.	Accounts Receivable Cr.	Ret. Sales & Allow. Dept. A Dr.	Ret. Sales & Allow. Dept. B Dr.
1941 June	4	115 Marvin Building Co.	Cement not needed		10 43		

As the return consisted of material from Department B, the amount of the credit memorandum, \$10.43, was recorded in the special column for returned sales and allowances for Department B. At the end of the month the total of this column was posted to the special account in the general ledger entitled *Returned Sales and Allowances, Department B*.

When lumber was returned or when an allowance was made for defective lumber, the amount of the credit memorandum was recorded in the special column for returned sales and allowances for Department A.

At the end of the month the total of this column was posted to the special account in the general ledger entitled *Returned Sales and Allowances, Department A*.

If the sales return or allowance affected both departments, the amount was divided between the two departmental returns and allowances columns.

Departmental Cash Journals. On June 3 the Hancock Lumber Company sold an invoice of merchandise for cash, \$34.20. Of this amount \$29.15 was for merchandise from Department A and \$5.05 was for merchandise from Department B.

The following entry was made in the cash receipts journal to record this cash sale:

CASH RECEIPTS JOURNAL									Page 29
Date	Account Credited	Explanation	Post. Ref.	General Ledger Cr.	Accounts Rec. Cr.	Sales, Dept. A Cr.	Sales, Dept. B Cr.	Discount on Sales Dr.	Net Cash Dr.
3	Sales	Cash sale, Inv. No. 195	✓			29 15	5 05		34 20

The amount of the cash sale that applied to Department A, \$29.15, was recorded in the special column of the cash receipts journal entitled "Sales, Department A Cr." The amount of the sale that applied to Department B, \$5.05, was recorded in the special column entitled "Sales, Department B Cr." The totals of these two special columns were posted to the appropriate general ledger accounts at the end of the month in the same manner in which the totals of the other special columns of the cash receipts journal were posted.

The Hancock Lumber Company seldom made cash purchases and it did not departmentalize its expenses; therefore, there was no need for special departmental expense columns in the columnar cash payments journal.

Departmental Work Sheet. The work sheet prepared by the Hancock Lumber Company provided special profit and loss statement columns for analyzing the income and the costs of the two departments. The work sheet prepared by that company on December 31 is illustrated on pages 60 and 61.

HANCOCK
WORK SHEET FOR YEAR

Account Titles	Ldgr. Page	Trial Balance		Adjustments		Adjusted Trial Balance	
		Dr	Cr	Dr	Cr	Dr	Cr
Cash.....	1	3145 50				3145 50	
Petty Cash.....	2	50 —				50 —	
Notes Receivable.....	3	2140 21				2140 21	
Accounts Receivable.....	4	3410 16				3410 16	
Reserve for Bad Debts.....	5		298 54		(b) 197 23		495 76
Mdse. Inventory, Dept A.....	6	8942 50		(d) 9554 60	(c) 8942 50	9554 60	
Mdse. Inventory, Dept B.....	7	11341 60		(f) 10413 23	(e) 11341 60	10413 23	

Sales, Department A.....	81		29986 52				29986 52
Sales, Department B.....	82		21386 41				24986 41
Ret. Sales & Allow. Dept A.....	83	210 50				210 50	
Ret. Sales & Allow. Dept B.....	84	156 40				156 40	
Purchases, Department A.....	91	22042 61		(c) 8942 50	(d) 9554 60	21430 51	
Purchases, Department B.....	92	18941 56		(e) 11341 60	(f) 10413 23	19869 93	
Ret. Pur. & Allow. Dept A.....	93		140 10				140 10
Ret. Pur. & Allow. Dept B.....	94		110 15				110 15
Trans. on Pur. Dept. A.....	95	456 10				456 10	
Trans. on Pur. Dept. B.....	96	294 15				294 15	
Salary Expense.....	101	6440 62				6440 62	
Delivery Expense.....	102	2353 76				2353 76	

				49372 17	49372 17	146671 32	146671 32
Gross Profit on Sales.....							
Provision for Fed. Inc. Tax.....							
Net Income After Deducting Federal Income Taxes.....							

ILLUSTRATION 2

Analysis of the Departmental Work Sheet. Separate accounts for income and cost items were maintained for each department. The balances of these accounts were listed in the trial balance columns of the work sheet. For convenience in adjusting the two purchases accounts, two merchandise inventory accounts were maintained. Two adjustments were prepared for each merchandise inventory account in the same manner in which adjustments are prepared for a nondepartmentalized business.

A separate set of profit and loss statement columns for each department was provided on the work sheet. The balances of the income and the cost accounts for each department were listed in the appropriate departmental columns. As the expenses were not departmentalized, the balances

LUMBER COMPANY
ENDED DECEMBER 31, 1941

Profit and Loss Statement										Balance Sheet	
Department A				Department B				Total		Dr.	Cr.
Dr.		Cr.		Dr.		Cr.		Dr.	Cr.		
										3145 50	
										50	
										2140 21	
										3410 16	
											495 76
										9554 60	
										10413 23	
		29986 52				24986 41					
210 50						156 40					
21430 51						19869 93					
		140 10				110 15					
456 10						294 15					
								6440 62			
								2353 76			
22097 11	30126 62		20320 48	25096 56							
8029 51			4776 08					12805 59			
30126 62	30126 62		25096 56	25096 56			9715 50	12922 29	94538 23	91331 44	
							476 21			476 21	
							2730 58			2730 58	
							12922 29	12922 29	94538 23	94538 23	

DEPARTMENTAL WORK SHEET

of these accounts were extended into the profit and loss statement total columns.

The calculations at the bottom of the four special columns of the departmental profit and loss statement were made to determine the gross profit for each department. The total gross profit for both departments, \$12,805.59, was extended into the profit and loss statement total credit column. The difference between the footing of the debit column, \$9,715.50, and the footing of the credit column, \$12,922.29, was \$3,206.79, the total net profit earned by both departments before the Federal income taxes were deducted. After deducting the Federal income taxes, \$476.21, the net profit remaining was \$2,730.58.

Departmental Profit and Loss Statement. The profit and loss statement prepared by the Hancock Lumber Company from the work sheet on December 31 was as follows:

HANCOCK LUMBER COMPANY

PROFIT AND LOSS STATEMENT FOR YEAR ENDED DECEMBER 31, 1941

	Department A	Department B	Total
Income from Sales.			
Gross Sales.....	29,986 52	24,986 41	
Less Returned Sales and Allowances . .	210 50	156 40	
Net Sales	29,776 02	24,830 01	54,606 03
Cost of Merchandise Sold			
Merchandise Inventory, Jan 1, 1941 .	8,942 50	11,341 60	
Purchases	22,042 61	18,941 56	
Transportation on Purchases	456 10	294 15	
Total	31,441 21	30,577 31	
Less Returned Purchases and Allow .	140 10	110 15	
Total Cost of Mdse Avail for Sale .	31,301 11	30,467 16	
Less Mdse Inventory, Dec. 31, 1941 ..	9,554 60	10,413 23	
Cost of Merchandise Sold... ..	21,746 51	20,053 93	41,800 44
Gross Profit on Sales.	8,029 51	4,776 08	12,805 59
Operating Expenses			
Selling Expenses.			
Salary Expense		6,440 62	
Delivery Expense.....		2,353 76	
Net Income Before Deducting Federal In-			
come Taxes			3,206 79
Less Provision for Fed Income Taxes .			476 21
Net Income After Deducting Federal In-			
come Taxes			2,730 58

ILLUSTRATION 21, DEPARTMENTAL PROFIT AND LOSS STATEMENT

The profit and loss statement showed the detailed calculations of the gross profit on sales for each department. The total sales for both departments, \$54,606.03, was extended into the total column. The total cost of merchandise sold for both departments, \$41,800.44, was also extended into the total column. The difference between these two amounts, \$12,805.59, was the total gross profit on sales for both departments.

The remainder of the profit and loss statement was prepared in the usual manner. All operating expenses for both departments were de-

ducted from the total gross profit. All financial income was added to the net profit from operations. All financial expenses were deducted from the gross income. The single net profit before deducting Federal income taxes, \$3,206.79, applied to the operations of both departments.

Departmental Schedule of Gross Profits. In order to simplify the profit and loss statement, some businesses prepare a separate report, known as the *departmental schedule of gross profits*, that is attached to the profit and loss statement. If the Hancock Lumber Company had prepared the separate schedule of departmental gross profits, it would have appeared as follows:

HANCOCK LUMBER COMPANY

DEPARTMENTAL SCHEDULE OF GROSS PROFITS FOR YEAR ENDED DECEMBER 31, 1941

	Department A	Department B	Total
Income from Sales:			
Gross Sales.....	29,986 52	24,986 41	
Less Returned Sales and Allowances . .	210 50	156 40	
Net Sales....	29,776 02	24,830 01	54,606 03
Cost of Merchandise Sold			
Merchandise Inventory, January 1, 1941	8,942 50	11,341 60	
Purchases.....	22,042 61	18,941 56	
Transportation on Purchases	456 10	294 15	
Total.....	31,441 21	30,577 31	
Less Returned Purchases and Allowances	140 10	110 15	
Total Cost of Mdse Available for Sale	31,301 11	30,467 16	
Less Mdse Inventory, Dec. 31, 1941 .	9,554 60	10,413 23	
Cost of Merchandise Sold	21,746 51	20,053 93	41,800 44
Gross Profit on Sales ..	8,029 51	4,776 08	12 805 59

ILLUSTRATION 22, DEPARTMENTAL SCHEDULE OF GROSS PROFITS

The schedule contained the same information that was listed in the income and cost sections of the profit and loss statement illustrated on page 62. When such a schedule is used, the profit and loss statement would not contain the detailed information relative to the gross profits. Under these conditions the profit and loss statement of the Hancock Lumber Company would have appeared as shown on the following page.

The only difference in the profit and loss statement is in the first section. Only the gross profit for each department and the total of the gross profits are listed. The details as to the derivation of the gross profits were shown on the separate schedule.

HANCOCK LUMBER COMPANY

PROFIT AND LOSS STATEMENT FOR YEAR ENDED DECEMBER 31, 1941

Gross Profit on Sales		
Gross Profit, Department A (See Schedule)	8,029.51	
Gross Profit, Department B (See Schedule)	4,776.08	
Total Gross Profit on Sales		12,805.59
Operating Expenses		
Selling Expenses		
Salary Expense	6,440 62	
Delivery Expense	2,353 76	
Net Income Before Deducting Federal Income Taxes		3,206 79
Less Federal Income Taxes		476 21
Net Income After Deducting Federal Income Taxes		2,730.58

ILLUSTRATION 23, SIMPLIFIED PROFIT AND LOSS STATEMENT

Departmental Balance Sheet. The balance sheet for a departmental business is the same as an ordinary balance sheet except that the merchandise inventory for each department is listed separately.

The asset division of the balance sheet prepared by the Hancock Lumber Company on December 31, the end of the fiscal period, is shown below:

HANCOCK LUMBER COMPANY

BALANCE SHEET, DECEMBER 31, 1941

ASSETS

Current Assets.		
Cash	3,145 50	
Petty Cash	50 00	
Notes Receivable	2,140 21	
Interest Receivable	94 16	
Accounts Receivable	3,410 16	
Less Reserve for Bad Debts	495 76	2,914 40
Merchandise Inventory, Department A	9,554 60	
Merchandise Inventory, Department B	10,413 23	
Total Current Assets		28,312 10
Total Assets		86,493 18

ILLUSTRATION 24, ASSETS DIVISION OF THE BALANCE SHEET OF A DEPARTMENTAL BUSINESS

Departmental Adjusting Entries. The adjusting entries prepared from the work sheet of the Hancock Lumber Company were the same as the adjusting entries for an ordinary business except that two sets of entries were required to adjust the merchandise inventory accounts. As the expenses were not recorded on a departmental basis, only the regular adjusting entries were needed for deferred charges and accruals.

Departmental Closing Entries. In preparing the closing entries, separate entries were used to close the income and the cost accounts for each department. Seven closing entries were therefore required: (1) an entry to close the profit and loss statement accounts with debit balances for Department A; (2) an entry to close the profit and loss statement accounts with credit balances for Department A; (3) an entry to close the profit and loss statement accounts with debit balances for Department B; (4) an entry to close the profit and loss statement accounts with credit balances for Department B; (5) an entry to close the accounts with debit balances in the profit and loss statement total columns; (6) an entry to close the accounts with credit balances in the profit and loss statement total columns; and (7) an entry to close the profit and loss summary account. The data for all of these entries were obtained from the six profit and loss statement columns of the departmental work sheet.

Departmentalized Expenses. Some businesses desire a more detailed analysis of the transactions of each department than is provided by the method used by the Hancock Lumber Company. They desire to have all of the expenses shown for each department so that the departmental net profit, as well as the departmental gross profit, may be determined. This information may be helpful in judging the efficiency of each department to earn a net profit.

When the departmental net profit is to be found, separate expense accounts must be maintained for each department. Some expenses may be charged to the departmental expense accounts at the time they are paid. For example, the wages of the sales clerks in a certain department may be charged to the departmental account for sales salaries.

Other expenses, such as rent, insurance, and advertising, are usually distributed to the departmental expense accounts at the end of the fiscal period. The basis for the distribution may be any basis that seems reasonable to the management of the business. For example, rent may be apportioned according to the space occupied by each department and the relative value that is assigned to the space. Insurance may be apportioned

according to the value of the insured assets in each department. Advertising may be apportioned according to the sales of each department. The particular method of apportioning the expenses depends upon the type of business and the nature of the transactions completed by each department.

Separate expense accounts for each department greatly increase the number of accounts in the general ledger. Many businesses therefore maintain a separate expense ledger. The information in the individual expense accounts for each department is then summarized in the general ledger in a single expense controlling account for each department.

STUDY GUIDE 5

Complete Study Guide 5 on pages 35 and 36 of your working papers. If you are doubtful about an answer, reread the chapter until you find the correct answer; then compare your answers with those on page 151 of this book. Refer to the printed answers only after you have made a serious effort to answer all questions, for otherwise the study guide will not be of greatest value to you. If you have any incorrect answers, reread the part of the chapter in which those questions are discussed.

WRITTEN EXERCISES

Exercise 10, Recording Departmental Transactions

Complete this exercise on pages 37 to 39 of your working papers.

The American Food Company operates two departments. Department A handles canned foods, and Department B handles fresh foods. The following transactions were selected from those completed by the American Food Company during May of the current year:

- May
1. Charge sale No. 611, Cameron Food Company, 623 Erie Avenue, City, canned fruits, \$19.24; terms, net 30 days.
 3. Bought a shipment of oranges from the Central Produce Company, Welston, \$30.50; invoice dated May 2; terms, 3/10, n/30; transportation charges, \$1.26; total invoice, \$31.76.
 3. Cash sales for May 1-3: canned foods, \$32.87; fresh foods, \$29.15.

- May 6. Charge sale No. 612, Main Street Food Market, 131 Main St., City, apples, \$18.54; terms, net 30 days.
7. Received a credit memorandum for \$3.14 from the Central Produce Company for an allowance for a crate of oranges received on May 3 that were spoiled.
9. Bought merchandise from the Superior Food Company, Ashby, as follows: canned tomatoes, \$27.10; celery, \$18.22; invoice dated May 7; terms, net 60 days; transportation charges, \$3.08; total invoice, \$48.40. (Distribute the transportation charges to the departments equally.)
10. Cash sales for week: canned foods, \$148.15; fresh foods, \$97.13.
12. Charge sale No. 613, Miller Grocery, 825 Corwin Avenue, City; canned peaches, \$12.78; celery, \$8.92; fresh peaches, \$13.47; total invoice, \$35.17; terms, net 30 days.
12. Issued credit memorandum No. 43 for \$18.27 to L. B. Wilkins for fresh foods returned that had been shipped to him in error.
15. Bought bread and rolls from the Main Street Bakery, City, \$10.31; invoice dated May 15; terms, net 10 days.
17. Charge sale No. 614, Atherton Food Store, 245 Eaton Ave., City; canned orange juice, \$11.64; terms, net 30 days.
17. Cash sales for week: canned foods, \$123.74; fresh foods, \$83.17.
21. Issued credit memorandum No. 44 for \$8.19 to the Atherton Food Store for the return of part of the canned orange juice that was not the kind ordered.
24. Bought a shipment of canned soup from the Avondale Food Company, Avondale, \$32.70; invoice dated May 22; terms, 2/10, n/30; transportation charges, \$1.82; total invoice, \$34.52.
24. Cash sales for the week: canned foods, \$109.19; fresh foods, \$137.15.
26. Charge sale No. 615, Probst Grocery, 729 Eighth St., City, lettuce and celery, \$8.93; terms, net 30 days.
26. Received a credit memorandum for \$8.47 from the Avondale Food Company for the return of part of the shipment of canned soup because it was not the kind ordered.
28. Bought canned peaches from the Jacobs Wholesale Company, Tanktown, \$19.20; invoice dated May 27; terms, net 60 days; transportation charges, \$1.06; total invoice, \$20.26.
29. Charge sale No. 616, Cameron Food Company, 623 Erie Avenue, City, canned peas, \$14.24; terms, net 30 days.
31. Cash sales for week: canned foods, \$127.15; fresh foods, \$129.43.

Instructions: (1) Forms required: (a) purchases journal similar to the one illustrated on page 56; (b) returned purchases and allowances journal similar to the one illustrated on page 57; (c) sales journal similar to the one illustrated on page 58; (d) returned sales and allowances journal similar to the one illustrated on page 58; (e) cash receipts journal similar to the one illustrated on page 59.

(2) Record the transactions in the appropriate journals.

Exercise 11, Computing Departmental Gross Profits

Complete this exercise on page 40 of your working papers.

The General Wholesale Drug Company operates three departments. Department A handles drugs, Department B handles fountain supplies, and Department C handles sundry items. The following information was available regarding the sales and the cost of sales of the General Wholesale Drug Company on December 31 of the current year.

	DEPT. A	DEPT. B	DEPT. C
Purchases.....	\$15,003.21	\$19,849.55	\$19,523.04
Returned Purchases and Allowances.....	103.61	194.59	97.42
Transportation on Purchases...	397.52	117.64	270.13
Gross Sales.....	24,561.26	21,492.53	28,844.64
Returned Sales and Allowances.	156.40	205.41	100.43
Merchandise Inventory, Jan. 1.	7,596.90	8,515.62	14,163.22
Merchandise Inventory, Dec. 31	8,621.94	13,025.53	14,471.68

Instructions: Prepare a departmental schedule of gross profits from the above data.

Exercise 12, Work at the End of the Fiscal Period

Complete this exercise on the forms on pages 41 to 46 and on the double-page work sheet that you will find on pages 81 to 84 of your working papers. Tear the form consisting of pages 81 to 84 out of your working papers on the perforated line at the top before you attempt to complete the exercise. First use the double-page work sheet on pages 82 and 83; then use the reverse side of the sheet, pages 81 and 84; then finish the exercise on pages 41 to 46.

The Elby Hardware Company, Inc. handled hardware and furniture. The records were kept on a departmental basis. The account balances in the general ledger of the Elby Hardware Company on December 31 of the current year were as follows:

Cash, \$2,973.23
 Accounts Receivable, \$2,093.84
 Reserve for Bad Debts, \$116.40
 Merchandise Inventory, Department A, \$5,374.89
 Merchandise Inventory, Department B, \$11,543.68
 Supplies, \$325.80
 Prepaid Insurance, \$865.50
 Equipment, \$1,915.50

Reserve for Depreciation of Equipment, \$448
 Building, \$8,500
 Reserve for Depreciation of Building, \$2,550
 Land, \$10,000
 Notes Payable, \$2,500
 Accounts Payable, \$2,165.69
 Federal Old-Age Insurance Taxes Payable, \$87.54

Federal Unemployment Taxes Payable, \$52.52	Returned Purchases and Allowances, Department B, \$104.24
State Unemployment Contributions Payable, \$118.17	Transportation on Purchases, Department A, \$194.56
Capital Stock, Common, \$14,600	Transportation on Purchases, Department B, \$208.17
Capital Stock, Preferred, \$16,300	Sales Salaries, \$7,652.40
Surplus, \$512.80 (Cr.)	Delivery Expense, \$732.55
Sales, Department A, \$23,783.01	Miscellaneous Selling Expense, \$324.67
Sales, Department B, \$27,732.83	Office Salaries, \$9,854.40
Returned Sales and Allowances, Department A, \$157.24	Social Security Taxes, \$227.59
Returned Sales and Allowances, Department B, \$241.55	State Unemployment Contributions, \$472.68
Purchases, Department A, \$16,421.35	Miscellaneous Administrative Expenses, \$527.60
Purchases, Department B, \$11,435.03	Discount on Purchases, \$639.20
Returned Purchases and Allowances, Department A, \$395.57	Interest Expense, \$63.74

The additional data needed at the end of the annual fiscal period are: total charges to customers, \$20,342.15; additional reserve for bad debts, $1\frac{1}{2}$ per cent of the charges to customers; merchandise inventory, Department A, \$7,602.97; merchandise inventory, Department B, \$12,917.86; supplies inventory, \$92.50; prepaid insurance, \$240; annual rate of estimated depreciation of equipment, 10 per cent; annual rate of estimated depreciation of building, 2 per cent; accrued interest expense, \$49.15; accrued property taxes, \$987.15; estimated income tax, \$805.99.

Instructions: (1) Prepare a work sheet with six profit and loss statement analysis columns for the annual fiscal period ended December 3 of the current year.

(2) Prepare a departmental profit and loss statement similar to the one illustrated on page 62 from the work sheet.

(3) Prepare a balance sheet similar to the one illustrated on page 64 from the work sheet.

(4) Record the adjusting and the closing entries in the general journal.

(5) Record the reversing entries.

After you have completed the exercises, check your solutions with the answers given on pages 151 and 152 of this book. When you have correct solutions for all exercises, you are ready to begin the study of Chapter 6.

CHAPTER 6

THE VOUCHER SYSTEM

Controlling Expenditures. In the operation of any business, expenditures are made for (a) merchandise, (b) fixed assets, (c) supplies and insurance, and (d) operating expenses. These expenditures should be made promptly when due in order to take advantage of any discounts and to maintain a good credit rating with creditors. They should be made and recorded accurately in order that the records of the business will show a true picture of all the transactions.

In a small business control over expenditures may be accomplished by having all expenditures under the direct supervision of the owner of the business or an executive officer. The same individual may also sign all checks issued in payment of purchases and services. In a large business, however, the expenditures usually apply to many departments too numerous for one individual to supervise directly. This responsibility is therefore delegated to subordinate officials. In such a business some method of control must be devised to insure the accuracy of records and to make certain that all payments are authorized.

The Voucher System. In most large businesses a system of controlling expenditures has been devised by which all payments must be authorized and approved by proper officials. All payments are then made by checks prepared by one individual. Before any expenditures can be made, a special form requesting the payment must be prepared. This form requesting the payment and explaining the reason for the payment is known as a *voucher*. Before a check will be issued, the voucher must be approved by some person in authority, usually called the *comptroller*. This method of controlling expenditures through the use of approved vouchers is known as the *voucher system*. The voucher system provides a means of controlling all expenditures because each voucher must be approved by centralized authority before the expenditure can be made.

Under the voucher system vouchers are prepared for all payments whether they are for merchandise or for some other expenditure. One individual, known as a *voucher clerk*, usually prepares all vouchers. Before he prepares a voucher, the voucher clerk must have an invoice or some other business form authorizing the preparation of a voucher.

Verification of Invoices. The first step in insuring the accuracy of expenditures is a careful verification of each invoice. On March 3 the Continental Supply Company received an invoice and a shipment of merchandise from the Wilson Leather Supplies Company. The invoice and the shipment were carefully checked. The verification of the accuracy of all items on the invoice was indicated in the "For Customer's Use Only" block of the simplified invoice shown at the left.

FOR CUSTOMER'S USE ONLY	
Register No.	Voucher No.
F O B Checked	
Terms Approved <i>LRK</i>	Price Approved <i>LRK</i>
Calculations Checked <i>CCS</i>	
Transportation	
Freight Bill No.	Amount
Material Received <i>3/2 19 41</i>	<i>W M</i>
Date	Signature
Satisfactory and Approved	
Adjustments	
Accounting Distribution <i>Charge Purchases, \$231.85</i> <i>Trans on Pur., \$3.12</i>	
Audited <i>S & S</i>	Final Approval <i>H O. Mason</i>

**ILLUSTRATION 25,
VERIFICATION OF INVOICE**

The purchasing agent verified the terms and the prices on the invoice. He placed his initials in the proper blanks to indicate the accuracy of these items. A bookkeeper verified the extensions on the invoice and initialed the invoice to show that the calculations were accurate. The receiving clerk checked the merchandise received against the invoice and indicated the accuracy in the proper blank. An accountant audited the invoice and indicated the accounts to be charged in recording the invoice. His initials indicated that he found it all correct. The comptroller of the company, H. O. Mason, signed the invoice to indicate that he approved the expenditure.

Each invoice received was carefully verified in the same manner. If an invoice was received that did not contain the "For Customer's Use Only" block, a rubber stamp similar to the printed block was used. It provided space for the same type of verification.

Preparing the Voucher. When the verification of the invoice was completed and the expenditure was approved by the comptroller, the invoice was sent to the voucher clerk. The voucher clerk prepared the voucher illustrated on the following page. On the outside of the voucher in the section headed "Recapitulation" as shown in Illustration 26, he entered the voucher number and a summary of the information from the invoice. He recorded the amount of the merchandise, \$231.85, on the line for purchases and the transportation charges, \$3.12, on the line for transportation on purchases in the section headed "Distribution." This record was authorized by the auditor's note on the invoice and was the basis for the entry to be prepared by the accounting department.

DISTRIBUTION		VOUCHER No. <u>501</u>
		RECAPITULATION
ACCOUNTS DEBITED	AMOUNT	ISSUED <u>March 3,</u> 194 <u>1</u>
Purchases.....	231. 85	To <u>Wilson Leather Supplies</u>
Transportation on Purchases .....	...3. 12	<u>Company</u>
Store Supplies.....		ADDRESS <u>215 Lexington Ave.</u>
Office Supplies.....		<u>New York, New York</u>
Store Salaries.....		AMOUNT <u>\$234.97</u>
Advertising Expense.....		TERMS <u>2/10, n/30</u>
Transportation on Sales.....		DUE <u>March 11,</u> 194 <u>1</u>
Misc. Selling Expenses.....		PREPARED BY <u>R. C. Crawford</u>
Office Salaries.....		(VOUCHER CLERK)
Social Security Taxes.....		
State Unemployment Contrib.....		RECORDED IN VOUCHER
Rent Expense		REGISTER, PAGES
Misc. Administrative Expense ..		BY
.....		(FOR ACCOUNTING DEPARTMENT)
.....		
.....		PAID 194
.....		CHECK No. FOR \$
.....		DISCOUNT \$
.....	
.....		(CASHIER)
.....		
.....		CERTIFICATION
.....		THIS VOUCHER HAS BEEN CAREFULLY AUDITED
.....		AND IS CORRECT IN EVERY RESPECT.
Total (Vouchers Payable Cr.)	234. 97	.....
		(AUDITOR)

ILLUSTRATION 26, VOUCHER (Outside)

VOUCHER

CONTINENTAL SUPPLY COMPANY

No. _____ DATE _____ 19 ____ TERMS _____ DUE _____ 19 ____

To _____

ADDRESS _____

FOR THE FOLLOWING,

INVOICE DATE	DESCRIPTION	AMOUNT
-----------------	-------------	--------

APPROVED BY _____
(COMPTROLLER)

ILLUSTRATION 27, VOUCHER (Inside)

The voucher number was written in the space provided for it on the invoice and the invoice was attached to the inside of the voucher. The voucher number on the invoice provided a convenient cross reference in the event that the invoice should become detached from the voucher. No record was made on the inside of the voucher as the invoice provided all of the detailed information necessary for auditing purposes. When no invoice was available for an expenditure, the detailed information necessary was recorded in the blanks provided on the inside of the voucher.

When the voucher clerk had filled out the voucher and had attached the invoice to the inside, he folded the voucher on the dotted line. The voucher thus became a folder containing the invoice. For this reason the voucher is sometimes referred to as a *voucher jacket*. The folded voucher jackets provide a uniform cover or file for the various sizes of invoices placed in them.

After the preparation of the voucher had been completed by the voucher clerk, the voucher was sent to the auditor for his approval. The auditor signed his name in the special certification section after he had carefully checked the voucher. The completed and approved voucher was then sent to the bookkeeper to be recorded.

A separate voucher is usually prepared for each invoice. In some cases, however, invoices may have terms similar to "2 per cent before the tenth of the following month." In these cases the several invoices received from one creditor are accumulated and one voucher is prepared for all of the invoices received before the due date.

Recording Vouchers. Usually, under the voucher system, an accounts payable ledger is not maintained. All invoices are paid promptly to take advantage of any discounts. The record of the amounts owed to individual creditors is therefore unnecessary. In order to maintain equal debits and credits in the ledger when the expenditures indicated by the voucher are recorded, the entire amount of the voucher is credited to a single account in the general ledger with the title *Vouchers Payable*. The vouchers payable account contains a summary of all unpaid bills whether they are for merchandise or other expenditures. The credit balance of the vouchers payable account is therefore a liability and is listed on the balance sheet as one of the current liabilities.

The Voucher Register. Each voucher prepared by the Continental Supply Company was recorded in a special book of original entry known as a *voucher register*. The voucher register used by the Continental Supply Company during March is shown on pages 76 and 77.

each column total was posted was written below the column to indicate the posting. A check mark was placed below the total of the general ledger debit column to indicate that the total was not to be posted.

Paying Vouchers. Under the voucher system, all vouchers are paid by check and all checks issued are in payment of vouchers. Each day the comptroller removes from the unpaid vouchers file the vouchers that should be paid on that day. These vouchers are turned over to the cashier who prepares a check for the amount of each voucher less any deductions for discounts or for social security taxes.

For the payment of vouchers, many businesses use a special form of check, known as a *voucher check*, that contains a brief summary of the voucher. The voucher check issued by the Continental Supply Company on March 11 in payment of Voucher No. 501 is shown below:

Baltimore, Maryland		March 11, 1941		No. 147	
VOUCHER #501		CITIZENS NATIONAL BANK 7-133			
<small>IN FULL SETTLEMENT AS SPECIFIED BELOW</small>					
Inv. No. 802	234	97			
Less 2% disc.	4	64			
Amount of check	230	33			
			Pay to the order of. Wilson Leather Supplies Co. \$230.33		
			Two hundred thirty and 33/100 ----- Dollars		
			CONTINENTAL SUPPLY COMPANY		
			By <u>James Stone</u>		

ILLUSTRATION 29, VOUCHER CHECK

The voucher number, the amount of the invoice, the amount of the discount, and the net amount of the check were recorded in the special block at the left end of the voucher check. When this check was endorsed and cashed by the payee, it constituted a receipt for the payment listed on the front.

Some businesses place the block for itemizing the account on the back of the check immediately above the space for endorsements. Others have a special statement attached to the check that provides the creditor with information as to the purpose of the check.

The Check Register. As the distribution of all expenditures is made at the time of recording the vouchers in the voucher register, the cash payments journal under the voucher system does not contain the many distribution columns used when the voucher system is not in effect. The simple form of the cash payments journal used with the voucher system

is frequently called a *check register*. Each check issued is recorded in the check register in the order drawn and the check number is entered in the check register so that the failure to record a check can be easily noticed.

On March 11 the following entry was made in the check register of the Continental Supply Company to record the issuance of check No. 147 in payment of voucher No. 501:

CHECK REGISTER							PAGE 27
DATE	CHECK NO.	IN FAVOR OF	VCHR. NO.	VOUCHERS PAYABLE DR.	DISCOUNT ON PURCHASES CR.	F O A INS. TAXES PAY. CR.	NET CASH CR.
11	147	Wilson Leather Supplies Co.	501	234.97	4.64		230.33

ILLUSTRATION 30, CHECK REGISTER

The total amount of the voucher paid, \$234.97, was recorded in the vouchers payable debit column to show the decrease in the amount of the unpaid vouchers. The amount of the discount on the invoice, \$4.64, was recorded in the special discount on purchases credit column. The amount of the check, \$230.33, was recorded in the net cash credit column. The total of the two credit amounts (\$4.64 + \$230.33) equaled the debit amount, \$234.97.

A special column was provided for credits to Federal Old-Age Insurance Taxes Payable because the voucher was prepared for the total amount of the salary expense. As part of the salaries were withheld by the company to be turned over to the government, the check was written for the amount of the salaries less the amount of the employees share of the tax for old-age insurance purposes.

When the check had been made out and recorded in the check register, the date of payment, March 11, and the number of the check, 147, were recorded in the voucher register in the "Paid" columns after the record of the voucher. A record of the payment was also made on the original voucher in the space provided, as follows:

PAID	March 11,	1941
CHECK NO.	147	FOR \$ 230.33
DISCOUNT \$	4.64	
James Stone		
(CASHIER)		

After the check had been issued and recorded on the voucher, the voucher was filed alphabetically under the name of the creditor. This alphabetic file for paid vouchers is frequently called a *paid vouchers file*. All vouchers, whether they were for purchases or other expenditures, were filed under the name of the creditor in the paid vouchers file. This file therefore provided detailed information as to the volume of the business completed with each creditor.

The sum of the unpaid vouchers should at all times equal the credit balance of the vouchers payable account because the vouchers payable account was debited for the amount of each voucher paid and the paid vouchers were removed from the unpaid vouchers file. The accuracy of these records was proved by preparing a statement of the unpaid vouchers known as an *abstract of vouchers payable*. The unpaid vouchers were listed in the same manner as accounts payable are listed on the abstract of accounts payable. The sum of the unpaid vouchers on the abstract should also equal the sum of the unpaid vouchers shown by the voucher register.

Posting the Check Register. None of the individual items in the check register were posted separately. At the end of the month the columns of the check register were totaled and proved. The sum of the totals of the credit columns equaled the total of the vouchers payable debit column. The totals were then posted to the appropriate accounts in the general ledger. The page number of the account was written below the total to indicate the posting.

Some businesses have bank accounts in more than one bank. In such cases a separate account is maintained for each bank with the name of the bank as its title. Special columns are provided in the check register for each bank account to replace the single cash account column shown in Illustration 30.

Immediate Payment of Vouchers. Under the voucher system, a voucher must be prepared for each expenditure before a check can be issued. When payment must be made at the time of purchase of merchandise or services, a voucher should be prepared for the expenditure and the check should be issued immediately. The first entry on March 4 in the voucher register in Illustration 28 to record voucher No. 503 was a transaction of this kind. It will be noted that the check issued in payment of the freight bill was entered in the check register on the same date as that on which the voucher was prepared.

When payment is made on the day that the voucher is prepared, it is not necessary to place the voucher in the unpaid vouchers file. The

check is drawn immediately and the voucher is placed in its proper alphabetic position in the paid vouchers file. The transaction, however, is recorded in the voucher register and the check register in the same manner as any voucher. In this way all expenditures are recorded in the same place and in the same manner. This procedure is very helpful in proving records and in auditing them.

Petty Cash Transactions. If the voucher system is used, it is customary to maintain a petty cash fund for handling small expenditures. When the petty cash fund is established, a voucher authorizing the issuance of a check for this purpose must be prepared and recorded. When the petty cash fund needs to be replenished, the petty cashier must submit to the comptroller for approval a statement of the expenditures from the petty cash fund. On approval, this statement provides the information for the preparation of a voucher to replenish the petty cash fund.

The last entry on March 31 in the voucher register on pages 76 and 77 to record voucher No. 573 was prepared to replenish the petty cash fund. The check was made out immediately and was turned over to the petty cashier.

Returned Purchases and Allowances. On March 10 the Continental Supply Company received a credit memorandum for \$28.35 from Jackson-Smith & Company for merchandise returned for credit. When the original invoice had been received from Jackson-Smith & Company, voucher No. 504 had been prepared for the entire amount of the invoice, \$93.47, and had been recorded in the voucher register as a debit to Purchases and a credit to Vouchers Payable. When the credit memorandum was received, however, the Continental Supply Company owed Jackson-Smith & Company only \$65.12 (\$93.47 - \$28.35).

In order that the voucher in the unpaid vouchers file would show the actual amount owed, voucher No. 504 was canceled and a new voucher, No. 532, was prepared for the amount still owed, \$65.12. The old voucher and the credit memorandum were placed inside the new voucher jacket and the new voucher was recorded in the voucher register in the same manner as any voucher. The notation "See New Voucher No. 532" was written in the "Paid" columns of the voucher register on the line with the original voucher to indicate that a new voucher had been prepared to cancel voucher No. 504. In this manner the voucher register contained complete information about all vouchers issued.

After the new voucher was prepared, the vouchers payable column and the purchases column of the voucher register included both (a) the

amount of the original voucher, \$93.47, which had been canceled, and (b) the amount of the new voucher, \$65.12, which had replaced the original voucher. In order to record the returned purchase and to adjust the vouchers payable account and the purchases account, the following entry was made in the general journal of the Continental Supply Company:

10 Vouchers Payable.....	93.47	
Returned Purchases and Allowances..		28 35
Purchases.....		65 12
To record the return of a shipment of purses and to cancel voucher No. 504.		

In posting the total of the vouchers payable credit column of the voucher register, both the amount of the old voucher, \$93.47, and the amount of the new voucher, \$65.12, were included in the amount of the credit posted to the vouchers payable account. Only the amount of the new voucher, \$65.12, was owed. When the vouchers payable debit of \$93.47 was posted from the general journal, the credit of \$93.47 from the voucher register was canceled. The posting of the general journal debit entry had adjusted the balance of the vouchers payable account to an amount equal to the total of all unpaid vouchers.

The first credit item in the general journal entry was a record of the returned purchase, \$28.35. When this credit was posted to the returned purchases and allowances account, it represented a deduction from the original purchase of \$93.47. The amount of the purchase retained was the difference between these two amounts (\$93.47 - \$28.35) or \$65.12. When the total of the purchases debit column of the voucher register was posted, however, this total included both the amount of the old voucher, \$93.47, and the amount of the new voucher, \$65.12. The debit to the purchases account was therefore overstated \$65.12. The amount of the overstatement, \$65.12, was canceled by the credit to Purchases in the general journal.

Partial Payments. Businesses using the voucher system are usually able to pay the entire amount of each invoice on the due date. In some cases, however, it may be convenient to pay only a part of the invoice. When partial payments are made, the check should be recorded in the check register in the usual manner. At the same time a notation should be made in the "Paid" columns of the voucher register on the line with the voucher to indicate the partial payment. A similar notation should

be made on the voucher itself. The voucher should then be returned to the unpaid vouchers file and should be filed under the date on which it is expected the balance will be paid.

If preferred, the original voucher may be canceled and a new voucher may be prepared for the balance due. This practice, however, is usually considered unnecessary, as it is more convenient and just as practical to make the notation in the voucher register.

When large expenditures, such as the purchase of equipment, are to be made, the terms may call for the payment of the amount in installments. When this is the case, a separate voucher is prepared for each installment. The invoice is attached to the inside of the first voucher. A brief description of the invoice is recorded on the inside of the other vouchers. Each voucher is then recorded in the voucher register and is filed in the unpaid vouchers file according to its due date. As each installment is paid, the voucher is removed from the unpaid vouchers file and is transferred to the paid vouchers file. The vouchers for the installments are clipped together in the paid vouchers file. When the entire amount of the invoice is paid, all of the vouchers representing the payment will then be in one place in the paid vouchers file.

Advantages of the Voucher System. In large businesses that make many expenditures, the voucher system has many advantages for the handling and controlling of these expenditures. Some of these advantages are as follows:

1. The responsibility for authorizing and approving all expenditures is centralized.
2. The voucher jacket provides a convenient method of filing invoices for reference and for auditing.
3. The filing of vouchers according to their due dates facilitates the payment of invoices within discount periods.
4. The elimination of the accounts payable ledger decreases the accounting work.

Disadvantages of the Voucher System. In a small business the voucher system does not always prove to be an advantage. The chief disadvantages of the voucher system are as follows:

1. The preparation of vouchers for all invoices requires considerable extra work.
2. It is more difficult to obtain information about the volume of business done with each creditor from the paid vouchers file than it is from ledger accounts.
3. The inflexibility of the voucher system makes the recording of returns and allowances and partial payments awkward.

STUDY GUIDE 6

Complete Study Guide 6 on pages 47 and 48 of your working papers. If you are doubtful about an answer, reread the chapter until you find the correct answer; then compare your answers with those on page 152 of this book.

WRITTEN EXERCISE

Complete the following exercise, using pages 49 to 52 and 85 to 88 of your working papers. Tear the form consisting of pages 85 to 88 out of your working papers on the perforated line before you attempt to complete the exercise.

Exercise 13, The Voucher System

W. B. Perley, a leather goods jobber, used the voucher system. All vouchers were paid by check and all checks issued were in payment of vouchers. The following transactions were selected from those completed by W. B. Perley during October of the current year. The vouchers used during October were numbered consecutively beginning with No. 801.

- Oct. 2. Issued check No. 501 for \$65 to the Ferris Realty Corporation in payment of the October rent.
3. Bought merchandise from the Hammond Leather Mfg. Co., Hammond, \$243.95; invoice No. C89321, dated October 1; terms, 2/10, n/30.
4. Issued check No. 502 for \$7.50 to the Bell Telephone Company for telephone service.
4. Issued check No. 503 for \$8.50 to the Pennsylvania Railway for transportation on the merchandise received from the Hammond Leather Mfg. Co.
6. Bought merchandise from the Harlem Trunk Company, Albany, \$1,060.80; invoice No. A-1430, dated October 4; terms, 3/10, n/30; transportation charges, \$21.37; total invoice, \$1,082.17.
6. Issued check No. 504 for \$16 to the Courier-Herald, City, for advertising.
7. Received a credit memorandum for \$22.50 from the Hammond Leather Mfg. Co. for the return of part of the merchandise on the invoice of October 1.
9. Bought a delivery truck from the Tri-State Automobile Company, \$885.50; invoice dated October 9; terms, net 60 days.
10. Issued check No. 505 for \$21.15 to the Mobley Service Station, City, for a gasoline bill received today.
13. Issued check No. 506 for \$217.02 to Hammond Leather Mfg. Co. in payment of their invoice of October 1 for \$243.95 less the return of \$22.50 and the discount of \$4.43.
14. Bought store supplies from the Lakeside Supply Company, City, \$31.15; invoice No. B42-1718, dated October 14; terms, net 30 days.

- Oct. 14. Issued check No. 507 for \$485 to the Harlem Trunk Company in payment of \$500 on their invoice of October 4 less the discount of \$15 on the partial payment.
15. Issued check No. 508 for \$376.20 for the semimonthly pay roll of \$380 less a deduction of 1 per cent for the employees' share of the tax for old-age benefit purposes. Of this amount \$160 was for office salaries and \$220 was for store salaries.
16. Bought merchandise from the Madison Leather Goods Company, Madison, \$800; invoice No. 8532-16B, dated October 14; terms, 3/10, n/30.
18. Bought office supplies from the Office Supply Company, 714 Keyes Avenue, City, \$57.82; invoice No. 8314, dated October 18; terms, 2/10, n/30.
20. Had window lettered by the Sandford Sign Shop, \$16.80; invoice No. 8635, dated October 20; terms, net 10 days.
21. Received a credit memorandum for \$7.15 from the Lakeside Supply Company for the return of part of the supplies on the invoice of October 14.
24. Issued check No. 509 for \$776 to Madison Leather Goods Company in payment of their invoice of October 14 for \$800 less discount of \$24.
25. Bought merchandise from the New-Process Luggage Corporation, Hamilton, \$320; invoice No. 19327, dated October 23; terms, 3/10, n/30.
28. Issued check No. 510 for \$56.66 to the Office Supply Company in payment of their invoice of October 18 for \$57.82 less discount of \$1.16.
30. Issued check No. 511 for \$80 to Knight Express Co., City, in payment of express bill No. B4719 for express on incoming merchandise, \$25, and on outgoing merchandise, \$55.
30. Issued check No. 512 for \$16.80 to Sandford Sign Shop in payment of their invoice of October 20.
31. Issued check No. 513 for \$376.20 for the semimonthly pay roll of \$380 less a deduction of 1 per cent for the employees' share of the tax for old-age benefit purposes. Of this amount \$160 was for office salaries and \$220 was for store salaries.
31. Issued check No. 514 for \$19.81 to replenish the petty cash fund. The accounts debited were as follows: Transportation on Purchases, \$4.12; Store Supplies, 95 cents; Office Supplies, \$1.60; Advertising Expense, \$7.77; Miscellaneous Selling Expense, \$2.19; Transportation on Sales, \$3.18.

Instructions: (1) Forms required: (a) voucher register similar to the one illustrated on pages 76 and 77; (b) check register similar to the one illustrated on page 79; (c) general journal; and (d) general ledger.

(2) Record the transactions in the voucher register, the check register, and the general journal.

(3) Total, prove, and rule the voucher register and the check register.

(4) Post the three books of original entry.

(5) Prepare an abstract of unpaid vouchers from the information in the voucher register.

After you have completed the exercise, check your solution with the solution given on page 153 of this book. When you have the correct solution for this exercise, you are ready to begin the study of Chapter 7.

CHAPTER 7

RECORDS OF A MANUFACTURING BUSINESS

The Manufacturing Business. A manufacturing business makes the articles that it sells. A mercantile business buys its merchandise and sells it in the same form in which it was purchased. It is evident that the manufacturing business, because of the different type of business activities, requires some records that are different from the records of a mercantile business.

In order to meet competition, the manufacturing business must maintain selling prices that are as low as those of its competitors who sell merchandise of equal quality. To determine accurately the selling price of the manufactured articles, the manufacturer must have accurate information as to the cost of manufacturing the article. If he cannot make a profit on his articles by selling them at prices that meet the competition, he must be able to increase the efficiency of his production or else he must eliminate the manufacture of the article. The manufacturing business therefore requires detailed information as to the cost of the production of the articles that are manufactured.

Elements of Manufacturing Costs. The manufacturer uses various items, known as *raw materials*, that are either changed in form or united with other items to become a part of the finished product. In order to make the raw materials into finished products, the manufacturer must employ some workers. The wages paid to the factory workers are referred to as *direct labor*. Expenses such as supplies for the machinery, depreciation, and insurance are incurred and are referred to as *overhead*. In determining the cost price of his finished product, the manufacturer must know the cost of the three elements that went into the finished product: (1) raw materials, (2) direct labor, and (3) overhead.

Control of Manufacturing Costs. In order to determine selling prices accurately, the manufacturer must have accurate information about his costs at all times. For efficient operation, the costs must be controlled carefully. As raw materials are a major element in the cost of manufacturing, a careful control must be maintained over the purchase and the use of the materials. For this reason manufacturers usually maintain records that will show at any time the asset value of the raw materials

on hand. A continuous record of the value of an asset is known as a *perpetual inventory* or a *book inventory*.

While the factory is operating, there are always some raw materials being processed. Direct labor is being applied to the raw materials and the jobs are using some overhead. These three elements (raw materials, direct labor, and overhead) that are being used in the factory are referred to as the *goods in process*. The amount of the goods in process is an asset. For accurate control of the factory operations, a perpetual inventory is maintained to show the value of the goods in process at all times.

After the goods in process have been completed, the items are referred to as *finished goods*. The finished goods of a manufacturer are the same as the merchandise inventory of a mercantile business. In order to have a sufficient quantity of finished goods on hand to meet sales requirements, manufacturers frequently maintain a perpetual inventory showing at all times the value of the finished goods on hand.

Raw Materials. The manufacturer of clothing uses cloth, thread, buttons, zippers, and other articles in the production of his finished clothing. The manufacturer of shoes uses different types of leather, thread, nails, rubber, and other articles in the production of his finished shoes. These articles that are either changed in form or united with other articles to become part of the finished product of a manufacturing business are called *raw materials*. The cost of the raw materials is one of the major costs of the manufacturing business.

The finished products of one manufacturing business may be the raw materials of another manufacturing business. For example, flour is the finished product of a flour mill but it is the raw material of a baker. Rubber heels for shoes are the finished products of the rubber company but are raw materials for the manufacturer of shoes. Thus it is not the form of the materials but rather the use to which they are put that determines whether or not they are raw materials of a manufacturing business.

Recording the Purchase of Raw Materials. In order to maintain an effective control over expenditures, manufacturing businesses frequently use the voucher system. When a voucher system is maintained, each purchase invoice for raw materials is recorded in the voucher register. Some manufacturing businesses, however, record the purchase of raw materials in purchases journals similar to those used in mercantile businesses.

The National Manufacturing Company makes desks and tables for school use. On August 4 the company received an invoice for \$1,150 from the Western Steel Company for a shipment of 1,000 steel desk standards. The debit and the credit required to record this invoice in the voucher register are shown in general journal form as follows:

4	Raw Materials	1150	—	1150	—
	Vouchers Payable				
	To record the purchase of raw materials.				

The amount of the invoice, \$1,150, was debited to the special asset account *Raw Materials*. The raw materials account was debited for all purchases of materials. It therefore contained a record of all materials received by the company.

As transportation charges are one of the costs of the raw materials, any transportation charges paid are included in the debit to the raw materials account. Under this plan the raw materials account includes the total cost of all raw materials purchased.

The Stores Ledger. The raw materials of a manufacturing business are usually purchased in large quantities. When they are received they are placed in the storeroom until they are needed in the factory. The storeroom is arranged in a carefully laid out plan of shelves and bins. The various items of raw material are placed in these bins and on the shelves so that they are easily accessible. The storeroom is usually in charge of an employee known as a *stores clerk*.

In order to keep an accurate control of the materials in the storeroom, a special ledger is usually maintained in which to record the details relative to each item of raw material. The ledger showing the details of the raw materials in the storeroom is referred to as a *stores ledger*. The accounts are usually kept on loose-leaf sheets or on individual cards.

The purchase of raw materials on August 4 by The National Manufacturing Company was recorded on a card kept for the steel desk standards as shown on page 90.

The stores ledger card contained a space for the name and the description of the article recorded on it. The "maximum" and "minimum" blanks were provided to show the stores clerk when to order more materials and how much to order.

The entry on the first line in the balance columns showed that there were 130 desk standards that had cost \$1.15 each on hand when the new

Raw Materials Used in the Factory. When raw materials were needed in the factory, a special form known as a *stores requisition* was prepared for the items needed. The stores requisition was prepared in duplicate and was signed by some person in authority, usually the factory superintendent or foreman. The approved requisition was then presented to the stores clerk, who gave the materials requisitioned to the bearer of the requisition. Under this plan all materials issued from the storeroom were authorized; thus a control over the materials leaving the storeroom was provided.

On August 5 the stores clerk for The National Manufacturing Company issued 120 steel desk standards to a worker who presented an approved requisition. The stores clerk recorded the unit price and the total amount of the requisition on both copies of the requisition. He also recorded the date on which the materials were issued and signed his initials to show that he had honored the requisition. He retained the original copy of the requisition as his record and sent the duplicate back to the foreman with the worker. The completed stores requisition is shown below:

STORES REQUISITION				
			REQUISITION NO.	791
			DATE	August 5, 1941
REQUISITIONED BY			POSITION	
L. H. Nichols			Foreman of Assembly Department	
JOB NO	QUANTITY	DESCRIPTION	UNIT PRICE	AMOUNT
831	120	18 x 25 Steel Desk Standards	1.15	138.00
MATERIALS ISSUED August 5, 1941			RECORDED.	
BY <u>H. J. F.</u>				
STORES CLERK				

ILLUSTRATION 32, STORES REQUISITION

After the materials had been issued, the stores clerk recorded the requisition in a special book of original entry known as a *requisition*

journal. The entry in the requisition journal to record requisition No. 791 is shown below:

REQUISITION JOURNAL						Page 79	
Date	Req. No.	Account Credited	Quantity	Unit Price	Post. Ref.	Amount Issued	
1941 Aug.	5 791	No. 391	120	1.15		138	—

ILLUSTRATION 33. REQUISITION JOURNAL

The entry in the requisition journal provided all of the information necessary to record the details of the materials leaving the storeroom on the stores ledger card. The account credited, No. 391, was the number of the card for the steel desk standards in the stores ledger. The details relative to the quantity, the unit price, and the total amount were posted to the "Issued" section of the stores ledger account. A check mark was placed in the posting reference column of the requisition journal to indicate the posting.

Goods in Process. When raw materials are taken from the storeroom to the factory, the workers begin work on them in the process of making them into completed articles to be sold. At all times while the factory is in operation some raw materials are in the factory having work done on them. Some of these materials have not yet become completed articles. The goods in the factory that have not yet been completed are referred to as *goods in process*. The value of the goods in process is referred to as the *goods in process inventory*. It is an asset similar to the raw materials inventory.

At the end of the month the total of the "Amount Issued" column of the requisition journal is posted to two accounts: (1) to the debit side of the special asset account *Goods in Process* to show the increase in the value of the goods placed in process and (2) to the credit side of the special asset account *Raw Materials* to show the decrease in the value of the goods in the storeroom. The entry to post the total of the requisition journal made by The National Manufacturing Company on August 30, the end of the four-week fiscal period, is shown below:

30	Goods In Process	Dr.—Raw	Materials Cr.	6/5	9312	20
----	------------------	---------	---------------	-----	------	----

Cost Sheets. In order to have an accurate basis for the selling price of each article manufactured, manufacturing businesses usually keep detailed records of the various costs of each article produced. When an order is received for products to be manufactured, the order is assigned a number. A special sheet containing space for recording the detailed costs of each order, known as a *cost sheet*, is started for the job number. The cost sheet follows the order through the factory. As the job progresses toward completion, all of the costs incurred in producing the order are recorded on the cost sheet. All of the cost sheets for the various jobs in process are referred to as the *job cost ledger*. The job cost ledger contains in detail the same information that is summarized in the goods in process account. The goods in process account is therefore a controlling account for the job cost ledger.

When the duplicate stores requisition was returned to the foreman with the materials requisitioned, the foreman recorded the materials on the cost sheet for job No. 831 for which the materials were requisitioned. The cost sheet with the materials recorded on it is shown below:

[illegible]

ILLUSTRATION 34. COST SHEET

The cost sheet contained information as to the number of the job, the date on which the job was started, the description of the order, and the name of the customer. The foreman recorded the date, the requisition number, and the total amount of the materials requisitioned in the raw materials section of the cost sheet.

Labor. The employees of a factory are usually divided into two classes as follows:

(1) Those who actually devote their time and skill to producing the desired article. These workers include those who operate the machines in the production of the article and those who do handwork in finishing the article. The wages paid to the employees whose time is devoted to actual work on the finished article are referred to as *direct labor*.

(2) Those who devote their time to supervision and to various tasks necessary for the operation of the factory but who do not actually work on the manufactured article. These workers include inspectors, supervisors, foremen, timekeepers, repairmen, receiving clerks, etc. The wages paid to these workers who are not actually making the goods but who are working in the factory are referred to as *indirect labor*.

Recording Labor Costs. In order to determine accurately the labor costs of each job, a separate record is kept of each worker's activity. At the beginning of the day each worker is given a special form known as a *time ticket* that contains space to record the type of work he does at all times during the day. The time ticket shows the various jobs on which a worker has been employed and the number of hours that he has worked on each job.

At the end of each day the time tickets are collected from the workers and the information is carefully analyzed. All of the direct labor of each worker on a particular job is recorded on the cost sheet for that job at the hourly rate paid the employee. At the end of each day, therefore, each cost sheet shows the total amount of direct labor that has been applied to the job up to that time.

As the direct labor is one of the costs of production, it should appear in the goods in process account. At the end of each period, therefore, the total amount of direct labor recorded on the cost sheets is transferred to the goods in process account by an adjusting entry on the work sheet. The direct labor account is credited and the goods in process account is debited for the total amount of the direct labor recorded on the cost sheets during the period.

Paying Wages of Workers. The workers in a factory are usually paid on an hourly basis. They are paid at frequent intervals, usually weekly or every two weeks. Two accounts are maintained in which to record the wages of the employees. The amount of direct labor is recorded in an expense account with the title *Direct Labor*. The amount of indirect labor is recorded in an expense account with the title *Indirect Labor*.

At the end of each pay-roll period the total amount of the wages owed to the employees is determined from the pay-roll records and is vouchered. The amount of the direct labor included in the total amount of the wages is determined from an analysis of the time tickets. The remainder of the wages is considered to be indirect labor. An entry is made in the voucher register debiting the direct labor account for the amount of the direct labor and the indirect labor account for the amount of the indirect labor. A check is then issued for the total amount of the voucher less the amount of the deductions for social security taxes. The check is recorded in the check register. The check is cashed and the employees are paid in cash. In some cases a separate checking account is maintained for the pay roll and checks are issued to each employee.

Overhead. In addition to the cost of raw materials and the cost of direct labor, a manufacturing business incurs other expenses that must be included in the cost of the goods manufactured. Supplies used in the factory, such as grease, soap, and waste, must be purchased. These supplies used in the factory are usually referred to as *factory supplies*. They are recorded in an asset account at the time of purchase and the portion used is determined at the end of the period by an inventory. The portion of the supplies used is recorded as an expense at the end of the period.

Some of the other expenses incurred are the indirect labor charges for foremen, clerks, etc.; depreciation of the factory buildings and equipment; repairs on the factory and equipment; insurance on the building, equipment, and stock; taxes on property owned; and heat, light, and water. The expenses other than raw materials and direct labor that are incurred in the manufacturing process are usually referred to as *overhead*. The various items of overhead are recorded in separate expense accounts at the time that they are vouchered.

Voucher Register of a Manufacturing Business. The National Manufacturing Company recorded expenditures by using the voucher system. A voucher was prepared for each expenditure and each voucher was paid by check. The voucher register used by The National Manufacturing Company during August is shown on pages 96 and 97.

Page 72

VOUCHER REGISTER

Date		Vou- cher No.	Creditor	Explanation	Paid		Vouchers Payable Cr.	
					Date	Check No.		
1941								
Aug.	4	872	Western Steel Co.	Invoice No. B8732	Aug. 14	1391	1150	--
	4	873	Joy Equipment Co.	Invoice No. 17729			385	25
	5	874	W. B. Andrews	Repairs to window	Aug. 5	1387	4	50
	5	875	Walker Supply Co.	Invoice No. 318C	Aug. 15	1401	29	15
	5	876	Case Builders.	Decorating office.	Aug. 20	1412	125	—
<hr/>								
	30	981	Pay Roll.....	Factory wages...	Aug. 30	1433	1007	92
	30		Totals				8228	25
							(31)	

ILLUSTRATION 35, VOUCHER REGISTER

Special columns were provided in the distribution section of the voucher register for the accounts that were debited frequently. Entries that affected accounts for which no special columns were provided were recorded in the general ledger debit section.

At the end of the month the voucher register was totaled and proved. The sum of the totals of the debit columns equaled the total of the vouchers payable credit column. The totals of the columns were then posted to the appropriate accounts in the general ledger. The page number of the account was written below the column total to indicate the posting. A check mark was placed below the total of the general ledger debit column to indicate that the total of that column was not to be posted.

Distributing Overhead to Cost Sheets. In order that each cost sheet will show the entire cost of making the order, the overhead applicable to each order should be recorded on the cost sheet. As the overhead expenses apply to the operation of the entire factory, it is impossible to apportion the individual items to each job accurately. It is therefore necessary to estimate the total amount of the overhead that will apply to each order.

The overhead applicable to each job is usually estimated as a percentage of the direct labor costs. The percentage rate is determined from past experience. When a job is completed, the overhead is recorded on the cost sheet as a percentage of the total labor charges recorded on the cost sheet.

FOR MONTH OF AUGUST, 1941

Page 73

DISTRIBUTION														
Raw Materials Dr.		Factory Supplies Dr.		Misc. Factory Exp. Dr.		Misc. Selling Exp. Dr.		Misc. Admin. Exp. Dr.		General Ledger Dr.				
										Account		P.R.	Amount	
1150 --				4 50						Mch.& Fac. Equip		23	385 25	
		29 15						125 —		.....		.	.....
										
										Direct Labor		71	744 73	
										Indirect Labor		73	263 19	
4167 98		302 19		138 14		93 82		162 15					3363 97	
(5)		(11)		(89)		(109)		(119)					(✓)	

IN A MANUFACTURING BUSINESS

The National Manufacturing Company estimated that its overhead amounted to 75 per cent of the total direct labor charges. Each cost sheet was therefore charged with overhead at the rate of 75 per cent of the direct labor charges recorded on it. When the cost sheet for job No. 831 came through with the finished product, the overhead was recorded on it as shown on page 93.

Each requisition of material for use on job No. 831 was recorded in the raw materials section of the cost sheet. The daily record of the direct labor that went into the job was recorded in the direct labor section. When the job was finished, the raw materials and the direct labor amount columns were totaled and ruled and the totals were recorded in the summary section. The overhead was then recorded in the summary section at the rate of 75 per cent of the direct labor charges. The summary amount column was added to find the total cost of the job and was ruled. The number of units finished and the cost per unit were also recorded in the summary section of the cost sheet.

As the overhead expense is one of the costs of manufacturing, it should appear in the goods in process account. At the end of each period, therefore, an adjusting entry is prepared on the work sheet to record the overhead expense in the goods in process account. The amount of the adjustment is determined by taking 75 per cent of the labor charges that have been recorded in the goods in process account. The entry to record the overhead debits Goods in Process and credits a special expense account with the title *Overhead*.

The details of the completed cost sheet for job No. 831 were summarized on one line. The explanation column contained a brief description of the desks completed and the unit cost of each desk as shown by the cost sheet. The total cost of all of the desks completed shown on the cost sheet was recorded in the amount column.

The Stock Ledger. When jobs were completed, the finished goods were placed in a special room, known as the *stock room*, until they were shipped to customers. In order to keep an accurate control over the finished products, the finished goods were recorded in a special ledger known as the *stock ledger*. A separate account was maintained in the stock ledger for each type of article manufactured. The details were posted from the finished goods journal. The account for the school desks No. 42-SD showing the posting of the completed job No. 831 is shown below:

ARTICLE No. 42-SD							
JOB ORDER NO.	NUMBER OF UNITS MANUFACTURED	COST PER UNIT	COST OF JOB ORDER	SHIPPING ORDER NO.	NUMBER OF UNITS SHIPPED	COST PER UNIT	COST OF SHIPMENT
831	60	\$17.30	\$1,038 00				

ILLUSTRATION 38, STOCK LEDGER ACCOUNT

The stock ledger account contained special columns for information about the goods placed in the stock room. When goods were shipped, similar information was recorded on the credit side of the account for the items shipped. In this manner an accurate record was maintained of the goods in the stock room at all times.

Posting the Totals of the Finished Goods Journal. The items finished and transferred from the factory to the stock room are assets of the manufacturing business similar to the merchandise inventory of a mercantile business. The value of the finished goods is therefore recorded in the special asset account *Finished Goods*.

When the finished goods have been transferred from the factory to the stock room, the amount of the goods in process has been decreased. The goods in process account should therefore be credited. The total of the amount column of the finished goods journal is therefore posted to two accounts: (1) to the debit side of the asset account *Finished Goods* and (2) to the credit side of the asset account *Goods in Process*.

The entry to post the total of the finished goods journal of The National Manufacturing Company on August 30, the end of the four-week fiscal period, is shown below:

30	Finished Goods Dr.—	Goods in Process Cr.	7. 6	10316 33
----	---------------------	----------------------	------	----------

When this entry was posted to both accounts, the finished goods account was debited for \$10,316.33, the total amount of the goods finished during the period. It showed in summary form the same information that was shown in detail in the stock ledger. The finished goods account was therefore a controlling account for the stock ledger. The goods in process account was credited for \$10,316.33, the total amount of the goods completed during the period.

Selling Finished Goods. When the finished goods of a manufacturing business are sold, the sale is recorded in a manner similar to that used in recording the sales of a mercantile business. The customer is charged for the selling price of the merchandise and the sales account is credited for the sale. In order to keep an accurate record of the finished goods in the stock ledger, however, the account from which goods were sold must be credited for the *cost* price of the goods sold. As the finished goods account is a controlling account for the stock ledger, the finished goods account must also be credited for the cost price of the goods sold. It is evident, then, that two entries must be made to record the sale of finished goods: (1) an entry debiting the customer and Accounts Receivable and crediting Sales for the selling price and (2) an entry debiting a special account entitled *Cost of Sales* and crediting the individual account in the stock ledger and the controlling account *Finished Goods*.

On August 21 The National Manufacturing Company shipped 60 school desks that were made on job No. 831 to the Hilton High School. The desks were sold at \$23.20 each and were sold on terms of 2/10, n/60. The entry to record the sale to the Hilton High School is shown at the top of page 101.

The entry recorded in the first money column was recorded in the same manner as any sale. The amount, \$1,392, was the selling price of the desks to be charged to the customer. This amount was posted individually to the account with the Hilton High School in the accounts receivable ledger.

A special account column was provided for the second money column in which to list the number of the account in the stock ledger. The amount

SALES JOURNAL

Page 86

Date	Sale No.	Account Debited	Address	Terms	Quantity	P. R.	Accts. Rec. Dr.		Cost of Sales Dr.	
							Sales	Cr.	Finished Goods	Cr.
							Account	✓	Amount	
21	3012	Hilton High School	Hilton	2/10, n/60	60		1392	—	42-SD	1038

ILLUSTRATION 39, SALES JOURNAL OF A MANUFACTURING BUSINESS

recorded in the second money column, \$1,038, represented the cost price of the goods shipped to the Hilton High School as shown in the stock ledger account No. 42-SD. This amount was posted individually to account No. 42-SD in the stock ledger.

Posting the Totals of the Sales Journal. At the end of the period the columns of the sales journal were totaled. A summary entry was prepared at the bottom of the sales journal as shown in the following illustration:

	Totals			✓	11518.44		✓	9312.20
30	Accounts Receivable				11518.44			
	Cost of Sales				9312.20			
	Sales							11518.44
	Finished Goods							9312.20

When this entry was posted, the accounts receivable account was debited for \$11,518.44, the total charges to customers for the period. The sales account was credited for \$11,518.44, the total charge sales for the period.

The cost of sales account was debited for \$9,312.20, the cost price of the goods that had been sold during the period. The finished goods account was credited for \$9,312.20, the cost price of the finished goods that had been removed from the stock room. The balance of the finished goods account then showed the asset value of the goods on hand in the stock room at the end of the period. It showed in summary form the same information that was given in detail in the individual accounts in the stock ledger.

STUDY GUIDE 7

Complete Study Guide 7 on pages 53 and 54 of your working papers. If you are doubtful about an answer, reread the chapter until you find the correct answer; then compare your answers with those on page 154 of this book.

WRITTEN EXERCISES

Exercise 14, Voucher Register of a Manufacturing Business

Complete this exercise in the double-page voucher register given on pages 90 and 91 of your working papers. Tear out the form consisting of pages 89 to 92 on the perforated line before you attempt to complete the exercise. (Pages 89 and 92 will be used in the following exercises, so be sure to keep this form.)

The Zimmerman Novelty Company manufactured souvenirs and toys. All expenditures were vouchered and recorded in a voucher register when the bills were received. The transactions given on the following page were selected from those completed by the Zimmerman Novelty Company during the four-week fiscal period from September 1 to 27 of the current year. The vouchers used during the period were numbered consecutively beginning with No. 612.

- Sept. 1. Received a bill for \$18.42 from the Central Electricity Company. (Charge to Heat, Light, and Power.)
1. Received a shipment of veneer from the Western Lumber Mills, Inc., Loyal, \$3,805; invoice No. B8722 dated August 30; terms, 3/15, n/60.
 5. Received a shipment of supplies from the Winters Supply Company, Ladysmith, that contained supplies as follows: factory supplies, \$32.87; store supplies, \$18.15; office supplies, \$8.42; total invoice, \$59.44; invoice No. B16-4891 dated September 2; terms, net 30 days.
 8. Received a bill for gas, oil, and repairs to the delivery truck from Mayers City Garage, City, \$42.35; terms, net 10 days.
 10. Received a shipment of metal joints from the Waterford Hardware Company, Waterford, \$29.15; invoice No. 813 dated September 8; terms, 2/10, n/30.
 12. Received freight bill No. A-1993 from the B. & O. Railway for transportation charges prepaid on a shipment of toys, \$9.33.
 13. Prepared the pay roll for the factory employees for two weeks, \$792.15. The pay roll included direct labor, \$587.15, and indirect labor, \$205.

- Sept. 15. Received a shipment of printed tags to be attached to souvenirs from the Times Printing Company, City, \$92.35; invoice No. 81362 dated September 15; terms, net 30 days.
17. Received a bill for repairs to the machinery from the Lowry Machinery Company, Chicago, \$61.85; bill No. 3017-R dated September 15; terms, net 60 days.
20. Received a bill for painting the office from Englebert Bros., City, \$50; invoice No. 128 dated September 20; terms, net 10 days.
23. Received a shipment of miscellaneous raw materials from the National Wire Company, Rockford, \$18.39; invoice No. 19273 dated September 20; terms, 2/10, n/30.
23. Received a bill for advertising from the Times Printing Company, City, \$114.85; invoice No. 83721 dated September 22; terms, net 10 days.
27. Prepared the pay roll for the factory employees for two weeks, \$801.37. The pay roll included direct labor, \$543.48, and indirect labor, \$257.89.
27. Prepared the pay roll for the store and office employees for the month, \$955. The pay roll included store salaries, \$470, and office salaries, \$485.
27. Prepared a voucher to replenish the petty cash fund. The accounts debited were as follows: Miscellaneous Factory Expense, \$34.15; Miscellaneous Selling Expense, \$21.17; Miscellaneous Administrative Expense, \$33.25.

Instructions: Record the transactions in a voucher register similar to the one illustrated on pages 96 and 97.

Exercise 15, Cost Sheet

Complete this exercise on page 89 of your working papers. (Page 89 is on the back of the first page of the double-page voucher register used in Exercise 14.)

On September 8 the Zimmerman Novelty Company began work on order No. 1787-T, which was an order for 500 specially designed toy wagons for the Webster Toy Company of Janesville. The following transactions that applied to job No. 1787-T were completed while the job was in process.

- Sept. 8. Requisition No. 8921 for \$42.38.
8. Daily time slips as follows: No. 18,383 for \$5.40; No. 18,387 for \$5.40; and No. 18,392 for \$5.40.
9. Requisition No. 8978 for \$19.72.
9. Daily time slips as follows: No. 18,409 for \$4.20; No. 18,418 for \$3.60; and No. 18,431 for \$4.68.

Sept. 10. Requisition No. 9007 for \$8.93.

10. Daily time slips as follows: No. 18,487 for \$4.80; No. 18,488 for \$3.60; and No. 18,497 for \$3.60.

11. Requisition No. 9038 for \$12.27.

11. Daily time slip No. 18,514 for \$4.

Instructions: (1) Record the transactions on a cost sheet similar to the one illustrated on page 98.

(2) Record the overhead on the cost sheet at a rate of 70 per cent of the direct labor costs.

Exercise 16, Finished Goods

Complete this exercise on pages 55, 56, and 92 of your working papers. (Page 92 is on the back of the second page of the double-page voucher register used in Exercise 14.)

During the four-week fiscal period ended September 27 the Zimmerman Novelty Company completed jobs and sold finished goods as shown below. The numbers referred to in the description of the articles are the stock ledger account numbers.

Sept. 3. Completed job No. 1732-T including 300 No. 3310 toy dogs that cost 28 cents each.

5. Completed job No. 1751-S including 1,000 No. 5712 souvenirs that cost $6\frac{1}{2}$ cents each.

6. Sale No. 1439 to Zoller Wholesale Novelty Company, Neillsville; 500 No. 3012 toy windmills; sales price, \$435; cost price, \$360; terms, 2/10, n/30.

9. Sale No. 1440 to W. H. Wing & Co., Milwaukee; 1800 No. 5308 souvenirs; sales price, \$144; cost price, \$99; terms, 2/10, n/30.

11. Completed job No. 1787-T including 500 No. 3109 toy wagons that cost 31 cents each.

13. Sale No. 1441 to the Webster Toy Company, Janesville; 500 No. 3109 toy wagons; sales price, \$182.50; cost price, \$155; terms, 2/10, n/30.

16. Sale No. 1442 to the Zoller Wholesale Novelty Company, Neillsville; 300 No. 5327 souvenirs; sales price, \$63; cost price, \$38.50; terms, 2/10, n/30.

19. Completed job No. 1733-S including 800 No. 5801 souvenirs that cost $13\frac{1}{2}$ cents each.

22. Sale No. 1443 to Harris Store, Appleton; 150 No. 3307 toy dining sets; sales price \$483; cost price, \$427.50; terms, 2/10, n/30.

25. Completed job No. 1751-T including 1500 No. 3293 toy train outfits that cost \$9.87 each.

Sept. 27. Sale No. 1444 to the Winchester Hardware, Inc., Winchester; 250 No. 3307 toy dining sets, sales price \$805, cost price, \$712.50; and 100 No. 3293 toy train outfits, sales price, \$1,120, cost price, \$987; total invoice, \$1,925; terms, 2/10, n/30.

Instructions: (1) Forms required: (a) finished goods journal similar to the one illustrated on page 98; (b) sales journal similar to the one illustrated on page 101; (c) general ledger.

(2) Record the transactions in the appropriate journals.

(3) Post the totals of the two journals to the appropriate general ledger accounts.

After you have completed the exercises, check your solutions with the solutions given on page 154 of this book. When you have correct solutions for all exercises, you are ready to begin the study of Chapter 8.

CHAPTER 8

REPORTS OF A MANUFACTURING BUSINESS

The Fiscal Period. In order to have a constant and accurate control over the manufacturing and the selling activities, the manufacturing business usually requires a summary of all activities at frequent intervals. Manufacturers therefore usually operate on a short fiscal period, either monthly or quarterly. A fiscal period of a year in length is considered too long to provide information for efficient control of the operations.

In recent years many businesses have adopted a fiscal period of four weeks in length. There are thirteen periods of four weeks each in a year. By using a four-week fiscal period, the management obtains the summarized information regarding the operations of the business for periods of equal length. The operations of each period may be compared with the operations of other periods of the same length.

Financial Reports. Like a mercantile business, a manufacturing business usually prepares a profit and loss statement and a balance sheet at the end of each fiscal period. In order to determine the cost of the goods that he sells, the manufacturer must also have information relative to the cost of manufacturing the products. To obtain the information about the cost of operations, a special statement is prepared. The statement that shows the information as to the cost of production is referred to as a *manufacturing statement*.

Inventories of a Manufacturing Business. A manufacturing business must maintain three accounts to keep a record of its merchandise: (1) *Raw Materials* for the record of the materials in the storeroom, (2) *Goods in Process* for the record of the cost of the materials, direct labor, and overhead in process in the factory, and (3) *Finished Goods* for a record of the completed products in the stock room. For accurate control the manufacturing business must be able to determine the value of the three inventories at any time without making an actual count of the goods. Inventories maintained so that they show a continuous record of the raw materials, goods in process, and finished goods are referred to as *book inventories* or *perpetual inventories*.

The National Manufacturing Company maintained perpetual inventories of raw materials, goods in process, and finished goods. The three

inventory accounts as they appeared in the ledger on August 30, the end of the four-week fiscal period, are illustrated and discussed below.

Raw Materials Inventory. The raw materials account contained a summary of the perpetual inventory of the raw materials that were in the storeroom. On August 30 the account appeared as follows:

RAW MATERIALS										Page 5	
1941 Aug.	4	Balance	√	11,873	15	1941 Aug.	30	RJ	79	9,312	20
	30	VR	73	4,167	98						
		6,728.93		16,041	13						

The debit of \$11,873.15 on August 4 was the amount of the inventory at the beginning of the period. The debit of \$4,167.98 on August 30 was the total of the raw materials column of the voucher register. It represented the total amount of the raw materials purchased during the period and the transportation charges on the raw materials. The credit of \$9,312.20 on August 30 was the total of the amount issued column of the requisition journal. It represented the total amount of the raw materials taken from the storeroom and put in process during the period.

The raw materials account was thus a record of the materials in the storeroom at the end of the period. At that time it showed in summary form the same information shown in detail by the stores ledger. If it were necessary to know the inventory at some time during the period, the information could be obtained from the stores ledger cards.

Goods in Process Inventory. The goods in process account was a summary of the perpetual inventory of the cost of the goods in the factory. This cost included the cost of raw materials, direct labor, and overhead. The goods in process account appeared as follows on August 30:

GOODS IN PROCESS										Page 6	
1941 Aug.	4 30	Balance	√	1,042	18	1941 Aug.	30	FG	73	10,316	33
		Materials	RJ	9,312	20						
		38.05		10,354	38						

The debit of \$1,042.18 on August 4 was the total value of the goods in process at the beginning of the period. It included the cost of materials, direct labor, and overhead. The debit of \$9,312.20 on August 30 was the total of the amount issued column of the requisition journal. It represented the total amount of the materials that were transferred from the storeroom to the factory during the period. The credit of \$10,316.33 was the total of the amount column of the finished goods journal. It repre-

sented the total cost of goods that had been completed and transferred from the factory to the stock room. The value of the finished goods included the cost of the raw materials, the cost of the direct labor, and the cost of the overhead that applied to the finished products.

It is evident that the goods in process account was not complete. The amount of the direct labor and the overhead that had been used in producing the finished goods did not appear in the account. In order to keep the goods in process account free from unnecessary detail, these items were recorded in the goods in process account by an adjusting entry planned on the work sheet at the end of the period.

After the direct labor and the overhead had been recorded, the goods in process account showed in summary form the information that appeared on all of the cost sheets for the period. If it were necessary to know the inventory at some time during the period, the information could be obtained from the detailed record on the cost sheets.

Finished Goods Inventory. The finished goods account was a summary of the perpetual inventory of the finished products in the stock room. On August 30 the account appeared as follows:

FINISHED GOODS										Page 7	
1941 Aug.	4	Balance	√	1,993	45	1941 Aug.	30		S 86	9,312	20
	30	FG	73	10,316	33						
		2,997.58		12,309	78						

The debit of \$1,993.45 on August 4 was the value of the finished goods in the stock room at the beginning of the period. The debit of \$10,316.33 was the total of the amount column of the finished goods journal. It represented the total cost of the goods that had been completed and transferred from the factory to the stock room during the period. The credit of \$9,312.20 was the total of the finished goods credit column of the sales journal. It represented the total cost of the finished goods that had been sold during the period.

The finished goods account was a record of the articles in the stock room at the end of the period. At that time it showed in summary form the same information that was shown by the stock ledger. If it were necessary to know the inventory at some time during the period, the information could be obtained from the detailed record on the stock ledger cards.

Proving Perpetual Inventories. Under the system maintained by The National Manufacturing Company, the three inventory accounts showed the asset values of the inventories at the end of the period. It was thus unnecessary to make an actual count of the goods. The taking of physical inventories requires considerable time and usually necessitates the closing of the factory while the inventories are being taken.

Perpetual inventories are satisfactory for the preparation of the monthly reports. It is usually desirable, however, to take a physical inventory at least once a year to check the accuracy of the perpetual inventories. If any discrepancies are discovered, the inventory accounts should be adjusted at the end of the year.

Completing the Goods in Process Account. At the end of the four-week fiscal period the goods in process account of the National Manufacturing Company did not contain the direct labor and the overhead. It was necessary, therefore, to make adjusting entries to record the direct labor and the overhead used during the period in order to bring the goods in process account up to date.

The following adjusting entry was made to transfer the direct labor charges for the period to the goods in process account:

30	Goods in Process	1,546	05	1,546	05
	Direct Labor				
	To transfer the direct labor to the goods in process account.				

When this entry was posted, the goods in process account was debited for \$1,546.05, the total wages paid for direct labor for the period. The direct labor account was credited for the same amount. The direct labor account was then in balance.

During the period the estimated amount of the overhead was recorded on the cost sheets at a rate of 75 per cent of the direct labor charges. In order that the goods in process account would show the same information as the cost sheets, it was necessary to prepare an adjusting entry to record overhead in the goods in process account at the rate of 75 per cent of the direct labor. The following adjusting entry was prepared to record the overhead in the goods in process account:

30	Goods in Process.	1,159	54	1,159	54
	Overhead				
	To apply overhead to the goods in process account at a rate of 75% of the direct labor.				

When this entry was posted, the goods in process account was debited for \$1,159.54, the estimated amount of the overhead consumed during the period. The goods in process account was then completed because it contained debits for the raw materials, the direct labor, and the estimated overhead for the period. The balance of the account equaled the total value of the goods in process shown by the cost sheets for all uncompleted jobs.

Recording Actual Overhead. At the end of the period the separate manufacturing expense accounts in the ledger contained a record of the actual expenditures paid during the period. Adjusting entries recorded such manufacturing expenses as supplies used, expired insurance, depreciation, and accrued expenses. In order to summarize the actual manufacturing expenses for comparison with the estimated overhead, the following adjusting entry was prepared:

30	Overhead	1,145.73	
	Indirect Labor		437.21
	Heat, Light, and Power		85.15
	Social Security Taxes (Factory)		27.08
	State Unemploy. Contrib. (Factory)		56.25
	Property Taxes (Factory)		21.15
	Factory Supplies Used		267.38
	Expired Insurance (Factory)		31.18
	Depr. of Machinery and Fact. Equip.		133.39
	Depreciation of Building (Factory)		57.14
	Miscellaneous Manufacturing Expense		29.80
	To summarize actual overhead in the overhead account.		

When this entry was posted, the overhead account was debited for \$1,145.73, the amount of the actual overhead for the four-week period. The individual manufacturing expense accounts were in balance.

Overabsorbed Overhead. When the balances of the individual manufacturing expense accounts had been transferred to the overhead account, the overhead account appeared as follows:

OVERHEAD						Page 72		
1941 Aug.	30	J67	1,145.73	1941 Aug.	30	Goods in Process	J66	1,159.54
						13.81		

The debit of \$1,145.73 represented the actual manufacturing expenses incurred during the period. The credit of \$1,159.54 represented the amount of estimated overhead that had been recorded in the goods

in process account at a rate of 75 per cent of the direct labor charges. The credit side of the overhead account was \$13.81 larger than the debit side.

It is evident that the estimated amount of overhead charged to the goods in process was \$13.81 larger than the actual manufacturing expenses. This amount, the excess of the estimated overhead charged to the goods in process over the actual overhead, is referred to as *overabsorbed overhead*.

If the overhead account has a debit balance, it indicates that the amount of the overhead charged to the goods in process is less than the actual overhead incurred during the period. The amount of the actual overhead in excess of the estimated overhead is referred to as *underabsorbed overhead*.

As the amount of the overhead charged to the goods in process is an estimated amount, over several periods the overabsorbed overhead will usually be offset by underabsorbed overhead. For that reason the overabsorbed overhead was not considered an income for the current fiscal period. It was classified as a deferred credit and was placed in the deferred credits section of the balance sheet.

When the overhead account has a debit balance, it is expected that the underabsorbed overhead will be offset by overabsorbed overhead during the future periods. Underabsorbed overhead is therefore considered a deferred expense and is listed with the deferred charges on the balance sheet.

The overhead account is not closed at the end of each four-week fiscal period. If it has a balance at the end of the year, the balance is closed into the profit and loss summary account. If the balance of the overhead at the end of each four-week period is consistently a large debit or consistently a large credit, it indicates that the percentage used to apply overhead is not satisfactory and should be revised.

Profit and Loss Statement of a Manufacturing Business. The profit and loss statement of The National Manufacturing Company on August 30 is shown on page 112.

All of the information on the profit and loss statement was obtained from the profit and loss statement columns of the work sheet with the exception of the detail in the cost of goods sold section. The finished goods inventory at the beginning of the period, \$1,993.45, was obtained from the finished goods account. The cost of goods manufactured, \$10,316.33, was the debit in the finished goods account posted from the finished goods journal at the end of the month. The finished goods inventory on

THE NATIONAL MANUFACTURING COMPANY
PROFIT AND LOSS STATEMENT FOR FOUR WEEKS ENDED AUGUST 30, 1941

Income from Sales:			
Net Sales		11,518	44
Cost of Goods Sold:			
Finished Goods Inventory, August 4, 1941	1,993	45	
Cost of Goods Manufactured (Schedule A)	10,316	33	
Total Cost of Finished Goods Available for Sale	12,309	78	
Less Finished Goods Inventory, Aug. 30, 1941	2,997	58	
Cost of Goods Sold		9,312	20
Gross Profit on Sales		2,206	24
Operating Expenses:			
Selling Expenses:			
Sales Salaries	187.15		
Delivery Expense	214.21		
Advertising Expense	277.83		
Bad Debts	14.68		
Store Supplies Used	31.08		
Depreciation of Store Equipment	3.74		
Miscellaneous Selling Expense	89.28		
Total Selling Expenses		817	97
Administrative Expenses:			
Office Salaries	832.45		
Social Security Taxes (Store & Office)	13.26		
State Unemployment Contributions (Store and Office)	27.53		
Property Taxes (Store and Office)	8.97		
Office Supplies Used	72.14		
Expired Insurance (Store and Office)	10.36		
Depr. of Office Equipment	9.23		
Depr. of Building (Store and Office)	11.32		
Misc. Administrative Expense	22.42		
Total Administrative Expenses		1,007	68
Total Operating Expenses		1,825	65
Net Profit from Operations		380	59
Financial Income:			
Discount on Purchases		181	75
Gross Income		562	34
Financial Expense:			
Discount on Sales		156	56
Net Income before Deducting Federal Income Taxes		405	78
Less Provision for Federal Income Taxes		54	78
Net Income after Deducting Federal Income Taxes		351	00

ILLUSTRATION 40, PROFIT AND LOSS STATEMENT OF A MANUFACTURING BUSINESS

August 30, \$2,997.58, was listed on the trial balance. The amount of the cost of goods sold, \$9,312.20, agreed with the balance of the cost of sales account that was listed on the work sheet.

The Manufacturing Statement. In order to control efficiently the operations of the factory, the management of The National Manufacturing Company desired to have detailed information about the cost of the goods manufactured. A special statement, called the *manufacturing statement*, was therefore prepared to give the detailed information about the manufacturing costs. The manufacturing statement was attached to the profit and loss statement and was referred to as Schedule A. The manufacturing statement prepared by The National Manufacturing Company on August 30 is shown below:

(SCHEDULE A)

THE NATIONAL MANUFACTURING COMPANY

MANUFACTURING STATEMENT FOR FOUR WEEKS ENDED AUGUST 30, 1941

Raw Materials.			
Raw Materials Inventory, August 4, 1941	11,873	15	
Raw Materials Purchased	4,167	98	
Total Raw Materials Available During the Period	16,041	13	
Less Raw Materials Inventory, August 30, 1941	6,728	93	
Cost of Raw Materials Placed in Process			9,312 20
Direct Labor			1,546 05
Overhead:			
Indirect Labor	437	21	
Heat, Light, and Power	85	15	
Social Security Taxes (Factory)	27	08	
State Unemployment Contributions (Factory)	56	25	
Property Taxes (Factory)	21	15	
Factory Supplies Used	267	38	
Expired Insurance (Factory)	31	18	
Depr. of Machinery and Factory Equipment	133	39	
Depreciation of Building (Factory)	57	14	
Miscellaneous Manufacturing Expense	29	80	
Total Actual Overhead	1,145	73	
Add Overabsorbed Overhead	13	81	
Total Overhead Applied.			1,159 54
Total Cost of Goods Placed in Process			12,017 79
Add Goods in Process Inventory, August 4, 1941			1,042 18
Total Cost of Goods in Process During the Period			13,059 97
Less Goods in Process Inventory, August 30, 1941			2,743 64
Cost of Goods Manufactured.....			10,316 33

ILLUSTRATION 41, MANUFACTURING STATEMENT

The information in the raw materials section of the manufacturing statement was obtained from the raw materials account in the general ledger. The cost of the raw materials placed in process, \$9,312.20, was the credit to the raw materials account for the total amount of the raw materials transferred from the storeroom to the factory.

The data for the amount of direct labor was obtained from the balance of the direct labor account on the trial balance. The details regarding the overhead were obtained from the trial balance and the adjustments columns of the work sheet. The amount of the overabsorbed overhead, \$13.81, was added to the actual overhead so that the total, \$1,159.54, would equal the total amount of the overhead transferred to the goods in process account.

The total cost of the goods placed in process, \$12,017.79, included the total raw materials, direct labor, and overhead in process in the factory during the period. The beginning goods in process inventory was obtained from the goods in process account. The ending inventory was shown in the adjusted trial balance column of the work sheet. The total cost of the goods manufactured, \$10,316.33, was equal to the credit to the goods in process account from the finished goods journal at the end of the period.

Balance Sheet of A Manufacturing Business. The balance sheet of a manufacturing business is similar to that of a mercantile business. The balance sheet prepared by The National Manufacturing Company on August 30 is shown on page 115.

The current assets section of the balance sheet contained three inventories: (1) Raw Materials, (2) Goods In Process, and (3) Finished Goods. The amount of the overabsorbed overhead, \$13.81, was listed under the caption "Deferred Credits" in the liabilities section. The amount of the surplus, \$6,705.37, included the net income after deducting the provision for Federal income taxes for the current period.

Adjusting and Closing Entries. The adjusting entries to record the use of deferred charges, the bad debts, the depreciation, and the accruals of a manufacturing business are the same as those for a mercantile business. Three special adjusting entries are prepared: (1) an entry to transfer the direct labor charges to the goods in process account, (2) an entry to transfer the estimated overhead to the goods in process account, and (3) an entry to summarize the actual manufacturing expense accounts in the overhead account.

THE NATIONAL MANUFACTURING COMPANY
BALANCE SHEET, AUGUST 30, 1941

ASSETS		
Current Assets:		
Cash ..	1,549 49	
Petty Cash	100 00	
Accounts Receivable 6,452 37		
Less Reserve for Bad Debts... 301 83	6,150 54	
Raw Materials	6,728 93	
Goods In Process	2,743 64	
Finished Goods	2,997 58	
Total Current Assets		20,270 18
Deferred Charges:		
Factory Supplies	36 42	
Store Supplies	98 77	
Office Supplies	163 01	
Prepaid Insurance	498 46	
Total Deferred Charges		796 66
Fixed Assets:		
Machinery and Factory Equip. 17,340 00		
Less Reserve for Depr. of Machinery and Factory Equip. 4,668 59	12,671 41	
Store Equipment 985 00		
Less Res. for Depr. of Store Equip. 140 46	844 54	
Office Equipment 2,400 00		
Less Res. for Depr. of Off. Equip. 333 23	2,066 77	
Building 40,000 00		
Less Res. for Depr. of Building. 4,348 78	35,651 22	
Land	5,000 00	
Total Fixed Assets		56,233 94
Total Assets		77,300 78
LIABILITIES		
Current Liabilities:		
Vouchers Payable... .. 4,037 60		
Federal Old-Age Ins. Taxes Pay. 125 68		
Federal Unemploy. Taxes Payable 64 31		
State Unemploy. Contr. Payable 171 34		
Property Taxes Payable 176 49		
Provision for Fed. Income Taxes 506 18		
Total Current Liabilities	5,081 60	
Deferred Credits:		
Overhead	13 81	
Total Liabilities		5,095 41
PROPRIETORSHIP		
Capital Stock. ..	65,500 00	
Surplus	6,705 37	
Total Proprietorship		72,205 37
Total Liabilities and Proprietorship..		77,300 78

ILLUSTRATION 42, BALANCE SHEET OF A MANUFACTURING BUSINESS

The closing entries of a manufacturing business are the same as those for a mercantile business. Three closing entries were prepared by The National Manufacturing Company: (1) an entry to transfer all profit and loss statement accounts with credit balances to the profit and loss summary, (2) an entry to transfer all profit and loss statement accounts with debit balances to the profit and loss summary account, and (3) an entry to close the profit and loss summary account by transferring the net profit to Provision for Federal Income Taxes and to Surplus.

Manufacturing Accounts. When all of the adjusting and the closing entries were posted, the individual manufacturing expense accounts were summarized in the overhead account. The direct labor and the estimated overhead were recorded in the goods in process account. The three inventory accounts were balanced and ruled. On August 30, the end of the four-week fiscal period, the special manufacturing accounts appeared as follows:

RAW MATERIALS										Page 5
1941 Aug.	4 30	Balance	VR 73	✓	11,873 15 4,167 98	1941 Aug.	30	Balance	RJ 79	9,312 20 6,728 93
		6,728.93			16,041 13 16,041 13					16,041 13
1941 Sept.	1	Balance		✓	6,728.93					

GOODS IN PROCESS										Page 6
1941 Aug.	4 30	Balance	RJ 79	✓	1,042 18 9,312 20	1941 Aug.	30	Balance	FG 71	10,316 33 2,743 64
		38.05			10,354 38					
	30	Dir. Labor	J 66		1,546 05					
	30	Overhead	J 66		1,159 54					
		2,743.64			13,059 97 13,059 97					13,059 97
1941 Sept.	1	Balance		✓	2,743.64					

FINISHED GOODS										Page 7
1941 Aug.	4 30	Balance	FG 71	✓	1,993 45 10,316 33	1941 Aug.	30	Balance	S 86	9,312 20 2,997 58
		2,997.58			12,309 78 12,309 78					12,309 78
1941 Sept.	1	Balance		✓	2,997 58					

COST OF SALES

Page 61

1941 Aug.	30		S 86	9,312 20	1941 Aug.	30	P. & L. Sum.	J 68	9,312 20
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DIRECT LABOR

Page 71

1941 Aug.	16		VR 73	801 32	1941 Aug.	30	Goods in Proc.	J 66	1,546 05
	30		VR 73	744 73					
				1,546 05					1,546 05
				1,546 05					1,546 05

OVERHEAD

Page 72

1941 Aug.	30		J 67	1,145 73	1941 Aug.	30	Goods in Proc.	J 66	1,159 54
	30	Balance	✓	13 81			13.81		
				1,159 54					1,159 54
					1941 Sept.	30	Balance	✓	13 81

ILLUSTRATION 43, MANUFACTURING ACCOUNTS

The raw materials account had been debited for the purchase of raw materials and had been credited for the raw materials that left the storeroom. The goods in process account had been debited for the raw materials, the direct labor, and the estimated overhead that went into the factory during the period. It had been credited for the cost price of the finished goods that had left the factory. The finished goods account had been debited for the cost of the goods that had been completed and that had been transferred from the factory to the stock room. It had been credited for the cost price of all finished goods sold. At the end of the period, therefore, each inventory account showed the asset value of the inventory on hand. Each account was a perpetual inventory or a book inventory of the asset it represented.

The cost of sales account had been debited for the cost of the goods sold. This amount, \$9,312.20, was transferred to the profit and loss summary account. The direct labor account was debited from the voucher register each time the wages of the workers were paid. At the end of the period the total of the wages for the period, \$1,546.05, was transferred to the goods in process account. At the time the estimated overhead was recorded in the goods in process account, the overhead account was credited for 75 per cent of the labor charges, or \$1,159.54. The adjusting

entry prepared on August 30 to summarize the individual manufacturing expense accounts debited the overhead account for \$1,145.73, the actual amount of overhead incurred during the period. The credit balance of the overhead account, \$13.81, represented overabsorbed overhead for the period.

STUDY GUIDE 8

Complete Study Guide 8 on pages 57 and 58 of your working papers. If you are doubtful about an answer, reread the chapter until you find the correct answer; then compare your answers with those on page 154.

WRITTEN EXERCISES

Complete the following exercises, using pages 59 to 76 of your working papers.

Exercise 17, Adjusting Entries and Manufacturing Statement

The following account balances were taken from the books of The Crystal Springs Manufacturing Company on June 30 of the current year, the close of the fiscal year:

Raw Materials.....	\$35,100.00
Goods in Process (Cr.)	99,980.00
Factory Supplies... ..	525.50
Prepaid Insurance on Machinery and Equipment ...	1,800.00
Machinery and Equipment	26,000.00
Reserve for Depreciation of Machinery and Equipment.	3,500.00
Direct Labor.....	71,200.00
Indirect Labor.....	28,500.00
Light, Heat, and Power.....	15,830.00
Factory Property Taxes.....	1,630.00
Social Security Taxes (Factory Labor).....	1,177.80
State Unemployment Contributions (Factory Labor)...	2,446.20
Miscellaneous Factory Expenses.....	400.00

Additional Data:

Raw materials inventory at beginning of year, \$31,500
 Raw materials purchases, \$81,780
 Goods in process inventory at beginning of year, \$21,800
 Factory supplies inventory at end of year, \$80.20
 Prepaid insurance on machinery and equipment at end of year, \$200
 Depreciation of machinery and equipment, 10% a year
 Accrued property taxes on factory at end of year, \$315
 Overhead distributed to Goods in Process, \$55,080.

Instructions: (1) Record the required adjusting entries in general journal form.

(2) Prepare a manufacturing statement showing the cost of goods manufactured during the year.

Exercise 18, Work at the End of the Fiscal Period for a Clothing Manufacturer

The account balances in the general ledger of the Westcliffe Manufacturing Company, manufacturers of clothing, on September 27, the end of a four-week fiscal period beginning on September 1, were as follows:

Cash, \$2,329.99	Returned Sales and Allowances, \$323.75
Accounts Receivable, \$1,813	Cost of Sales, \$13,084.44
Reserve for Bad Debts, \$142.50	Direct Labor, \$2,792.85
Raw Materials, \$7,813.15	Indirect Labor, \$1,207.15
Goods in Process, \$231.40 (Dr.)	Factory Rent, \$300
Finished Goods, \$1,300.87	Heat, Light, and Power, \$100.45
Factory Supplies, \$233.40	Social Security Taxes (Factory), \$52
Office Supplies, \$120.03	State Unemployment Contributions (Factory), \$108
Prepaid Insurance, \$135	Sales Salaries, \$900
Factory Machinery, \$4,335	Delivery Expense, \$307.60
Reserve for Depreciation of Factory Machinery, \$439.27	Advertising Expense, \$525
Office Equipment, \$600	Miscellaneous Selling Expense, \$167.30
Reserve for Depreciation of Office Equipment, \$87.25	Office Rent, \$150
Vouchers Payable, \$1,237.93	Office Salaries, \$1,200
Federal Old-Age Insurance Taxes Payable, \$357.15	Social Security Taxes (Store and Office), \$27.30
Federal Unemployment Taxes Payable, \$160.71	State Unemployment Contributions (Store and Office), \$56.70
State Unemployment Contributions Payable, \$482.15	Miscellaneous Administrative Expense, \$167.30
Provision for Federal Income Taxes, \$462.18	Discount on Purchases, \$207.96
Capital Stock, \$19,200	Discount on Sales, \$176.38
Surplus, \$434.44 (Cr.)	
Sales, \$17,346.52	

The additional data needed at the end of the four-week fiscal period are: additional reserve for bad debts, 1½ per cent of gross sales; overhead transferred to goods in process inventory at the rate of 75 per cent of the direct labor; factory supplies inventory, \$56.55; office supplies inventory, \$71.81; expired insurance on factory, \$75; expired insurance on office, \$7.50; depreciation of factory machinery, \$33.35; depreciation of office equipment, \$29.15; raw materials inventory on September 1, \$8,639.29;

raw materials purchased during the period, \$6,770.93; goods in process inventory on September 1, \$4,826.49; finished goods inventory on September 1, \$2,193.15; add \$57.50 to the provision for Federal income taxes.

Instructions: (1) Record the account balances in the appropriate accounts in the general ledger.

(2) Record the adjusting entries in the general journal and post.

(3) Prepare a manufacturing statement.

(4) Prepare a profit and loss statement.

(5) Prepare a balance sheet.

(6) Record the closing entries in the general journal and post. Balance and rule the accounts.

After you have completed the exercises, check your solutions with the answers given on pages 155, 156, and 157 of this book. When you have correct solutions for all exercises, you are ready to begin practice set in Chapter 9.

END-OF-COURSE TEST

At this time you should apply to the United States Armed Forces Institute, Madison, Wisconsin, for your End-of-Course Test. If the form to be used for this purpose is not attached to the cover of this book, ask your Educational Services Officer, your Special Service Officer, or your Librarian to supply you with one.

While you are awaiting the arrival of the End-of-Course Test, work the practice set in Chapter 9. The blank books used in this set and the forms for the statements are in the envelope "Books of Account for The Apex Manufacturing Company Practice Set," which you received at the time that you received this textbook. You are to submit this completed practice set to the officer who supervises your taking of the End-of-Course Test so that he can return it with the test to the United States Armed Forces Institute.

CHAPTER 9

THE APEX MANUFACTURING COMPANY PRACTICE SET A JOB-ORDER COST ACCOUNTING PRACTICE SET

You are to submit this completed practice set to the officer who supervises your taking of the End-of-Course Test so that he can return it with the test to the United States Armed Forces Institute. Make your solution accurate in form as well as in amount, because form will be considered when your grade is being determined.

Purpose of this Practice Set. This practice set provides a review of accounting principles that apply to a manufacturing corporation as discussed and illustrated in this course. The set includes the work for one monthly fiscal period, February. The fiscal year for income tax purposes is the calendar year.

Nature of the Business. The Apex Manufacturing Company manufactures water-softening equipment for home use. The business maintains perpetual inventories of raw materials, goods in process, and finished goods. Raw materials, many of which are semiprocessed when they are purchased, include metal tanks, pipe, fittings, valves, brass, rubber, salt, and minerals.

Required Materials. The records of this practice set are to be made from the narrative of transactions in this chapter. The journals, the registers, and the ledgers in which the entries are to be made and the forms for the abstracts, work sheet, and statements are contained in the envelope marked "Books of Account for The Apex Manufacturing Company Practice Set."

The books of account used in this practice set are similar to those illustrated in earlier chapters, but some changes have been made to adapt the books to the need of this particular business. The books of account used in this practice set are as follows:

Voucher Register: Similar to Illustration 35 on pages 96 and 97 of the textbook, with the following distribution columns: Raw Materials Dr., Direct Labor Dr., Indirect Labor Dr., and General Ledger Dr. The explanation column will be used to record terms of purchase.

Sales Journal: Similar to Illustration 39 on page 101 of the textbook, except that the column headed "Quantity" is placed between the columns headed "✓" and "Amount" under "Cost of Sales Dr., Finished Goods Cr."

Cash Receipts Journal: Three-column form, with amount columns for General Ledger Cr., Accounts Receivable Cr., and First National Bank Dr.

Check Register: Similar to Illustration 30 on page 79 of the textbook, except that the last column is entitled "First National Bank Cr." instead of "Net Cash Cr."

Requisition Journal: Similar to Illustration 33 on page 92 of the textbook, except that one column entitled "Job Order No." takes the place of the three columns entitled "Account Credited," "Quantity," and "Unit Price." In this set all raw materials requisitioned for a job are reported and recorded in one amount.

Finished Goods Journal: Similar to Illustration 37 on page 98 of the textbook, except that the column entitled "Description" is omitted. The stock number of each item provides sufficient identification.

General Journal: Four-column divided form, with amount columns for Vouchers Payable Dr., General Ledger Dr., General Ledger Cr., and Accounts Receivable Cr.

Returned sales and allowances and returned purchases and allowances are recorded in the general journal because the frequency of such transactions does not justify the use of separate journals.

General Ledger: Standard ruling.

Accounts Receivable Ledger: Balance-column ledger ruling.

Job Cost Ledger: Same ruling as that in Illustration 36 on page 98 of the textbook.

Stock Ledger: Ruling for this record of finished goods similar to that in Illustration 38 on page 99 of the textbook, except that the column headed "Shipping Order No." becomes "Sale No." and that a date column is added on each side.

Other Books of Account: Corporation records are kept by the corporation secretary.

Petty cash is handled by an assistant who reports the classification of such expenditures whenever the fund is replenished.

The stores ledger, which contains the record of raw materials in the storeroom, is maintained by an assistant who submits an abstract at the end of each month to be checked with the balance of the raw materials account.

General Ledger. Open the accounts in the general ledger. First number the pages in the general ledger consecutively, using both sides of each sheet; then enter the account titles in the order given in the chart of accounts on the inside front cover of the general ledger. Note that the page number on which each account should appear is indicated in the chart of accounts.

Post-Closing Trial Balance. The post-closing trial balance of The Apex Manufacturing Company on January 31 of the current year is shown below:

THE APEX MANUFACTURING COMPANY
POST-CLOSING TRIAL BALANCE, JANUARY 31, 19---

First National Bank	2,080.15	
Petty Cash	35.—	
Accounts Receivable	7,228.50	
Reserve for Bad Debts		137.42
Raw Materials	5,231.15	
Goods in Process	284.96	
Finished Goods	1,319.30	
Factory Supplies	96.50	
Sales Department Supplies	196.97	
Office Supplies	73.75	
Prepaid Insurance	386.—	
Factory Equipment	7,525.—	
Reserve for Depreciation of Factory Equipment		1,922.18
Office Equipment	3,257.—	
Reserve for Depreciation of Office Equipment		980.64
Building	15,000.—	
Reserve for Depreciation of Building		937.50
Land	3,000.—	
Vouchers Payable		2,444.61
Federal Old-Age Insurance Taxes Payable		69.36
Federal Unemployment Taxes Payable		10.40
State Unemployment Contributions Payable		93.64
Property Taxes Payable		21.75
Provision for Federal Income Taxes		1,053.45
Capital Stock, Common		20,000.—
Capital Stock, Preferred		14,000.—
Surplus		4,048.14
Overhead*	4.81	
	<u>45,719.09</u>	<u>45,719.09</u>

*The overhead account is debited for the total actual overhead expenses that are first recorded in the individual manufacturing expense accounts. It is credited for the applied overhead, which is figured as a percentage of the direct labor costs. Since the overhead account is primarily a summary account for costs, it is placed in the assets section of the ledger. It may, however, at the end of one month have a small balance. If this balance is a debit balance, it is treated as a deferred charge and is reported on the balance sheet in the deferred charges section. If the balance is a credit balance, it is treated as a deferred credit and is reported on the balance sheet in the deferred credits section.

Record the account balances as of February 1 in the appropriate accounts already opened in the general ledger. Enter the balance of the First National Bank account in the explanation column of the cash receipts journal.

Accounts Receivable Ledger. Open the accounts in the accounts receivable ledger. Arrange the accounts in the order in which they are given in the list of customers on the inside front cover of the ledger.

An abstract of accounts receivable on January 31 of the current year is given below. Record each customer's balance as of February 1 in the appropriate account already opened in the accounts receivable ledger.

ABSTRACT OF ACCOUNTS RECEIVABLE, JANUARY 31, 19--

Ackmann & Winn, Evanston	341	—		
R. S. Barnes, Waukegan	314	50		
Capitol Plumbers, Inc., Madison	158	50		
Coleman Supply Co., Indianapolis	240	—		
Eggen & Stumpf, Columbus	91	—		
E. Erickson, South Bend	408	50		
M. Farroh & Sons, Davenport	244	50		
Elvin Hedgecock, Springfield	1,143	50		
Hoosier Plumbing Co., Gary	899	—		
Leech Plumbing Co., Elgin	398	—		
McAllister & Rippberger, Aurora	808	—		
Peck Bros., Fort Wayne	506	—		
Shore-Line Plumbing Co., Kenosha	210	—		
Suburban Plumbers, Oak Park	739	—		
L. G. Tillotson, Peoria	67	50		
Twin-City Plumbers, Inc., Minneapolis ..	329	—		
W. M. Wilson, Joliet	330	50		
Total Accounts Receivable			7,228	50

Job Cost Ledger. An abstract of the goods in process on January 31 of the current year is given below:

ABSTRACT OF GOODS IN PROCESS, JANUARY 31, 19--

Job No.	Model	No. of Units	Raw Materials	Direct Labor	Overhead	Total
F20	308E	3	\$26.88	\$44.25	\$26.55	\$ 97.68
F21	312E	1	12.26	23.75	14.25	50.26
F22	312A	6	69.42	42.25	25.35	137.02
Total Goods in Process						\$284.96

Open a cost sheet in the job cost ledger for each unfinished job order. Enter the amount of the raw materials for each job in the raw materials section as of the date of the job order. Enter the amount of the direct labor in the direct labor section as of January 31. Enter the amount of the overhead for January in the summary section, writing the explanation "Overhead- January" in the items column and the amount in the amount column.

Job No. F20 is dated January 27, is to be completed by February 4, and is ordered for stock. Job No. F21 is dated January 29, is to be completed by February 3, and is ordered for stock. Job No. F22 is dated January 30, is to be completed by February 6, and is ordered for stock.

Stock Ledger. Open an account in the stock ledger for each model. Arrange the accounts in the order in which they are given in the list of models on the inside front cover of the stock ledger. The figures in the model numbers indicate tank sizes. "A" indicates that the water-softening unit is finished with aluminum paint; "E," that it is finished with white enamel.

An abstract of the finished goods on January 31 of the current year is given below. Record the balance of each model as of February 1 in the appropriate accounts already opened in the stock ledger.

ABSTRACT OF FINISHED GOODS, JANUARY 31, 19--

Model	No. of Units	Unit Cost	Amount
308A	2	\$ 39.00	\$ 78.00
310A	3	44.10	132.30
312A	10	49.85	498.50
314A	3	59.82	179.46
318A	2	81.50	163.00
324A	2	134.02	268.04
Total Finished Goods			\$1,319.30

Voucher Register. An abstract of the vouchers payable on January 31 of the current year is given on page 126.

Enter the unpaid vouchers in the voucher register in numerical order. These unpaid vouchers were recorded and posted during January. They are being entered in the voucher register at the present time because the voucher register for January is not available and because the information about these unpaid vouchers is needed when the vouchers are paid. Enter the date, the number, the name of the creditor, the terms, and the amount of each voucher. Be sure to include the transportation charges in the terms, as the transportation charges are not subject to discount and must be

Record the account balances as of February 1 in the appropriate accounts already opened in the general ledger. Enter the balance of the First National Bank account in the explanation column of the cash receipts journal.

Accounts Receivable Ledger. Open the accounts in the accounts receivable ledger. Arrange the accounts in the order in which they are given in the list of customers on the inside front cover of the ledger.

An abstract of accounts receivable on January 31 of the current year is given below. Record each customer's balance as of February 1 in the appropriate account already opened in the accounts receivable ledger.

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Eggen & Stumpf, Columbus	91	—		
E. Erickson, South Bend	408	50		
M. Farroh & Sons, Davenport	244	50		
Elvin Hedgecock, Springfield	1,143	50		
Hoosier Plumbing Co., Gary	899	—		
Leech Plumbing Co., Elgin	398	—		
McAllister & Rippberger, Aurora	808	—		
Peck Bros., Fort Wayne	506	—		
Shore-Line Plumbing Co., Kenosha	210	—		
Suburban Plumbers, Oak Park	739	—		
L. G. Tillotson, Peoria	67	50		
Twin-City Plumbers, Inc., Minneapolis	329	—		
W. M. Wilson, Joliet	330	50		
Total Accounts Receivable			7,228	50

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Total Goods in Process						\$284.96

Open a cost sheet in the job cost ledger for each unfinished job order. Enter the amount of the raw materials for each job in the raw materials section as of the date of the job order. Enter the amount of the direct labor in the direct labor section as of January 31. Enter the amount of the overhead for January in the summary section, writing the explanation "Overhead—January" in the items column and the amount in the amount column.

Job No. F20 is dated January 27, is to be completed by February 4, and is ordered for stock. Job No. F21 is dated January 29, is to be completed by February 3, and is ordered for stock. Job No. F22 is dated January 30, is to be completed by February 6, and is ordered for stock.

Stock Ledger. Open an account in the stock ledger for each model. Arrange the accounts in the order in which they are given in the list of models on the inside front cover of the stock ledger. The figures in the model numbers indicate tank sizes. "A" indicates that the water-softening unit is finished with aluminum paint; "E," that it is finished with white enamel.

An abstract of the finished goods on January 31 of the current year is given below. Record the balance of each model as of February 1 in the appropriate accounts already opened in the stock ledger.

ABSTRACT OF FINISHED GOODS, JANUARY 31, 19--

Model	No. of Units	Unit Cost	Amount
308A	2	\$ 39.00	\$ 78.00
310A	3	44.10	132 30
312A	10	49 85	498. 50
314A	3	59.82	179.46
318A	2	81.50	163.00
324A	2	134.02	268 04
Total Finished Goods			\$1,319.30

Voucher Register. An abstract of the vouchers payable on January 31 of the current year is given on page 126.

Enter the unpaid vouchers in the voucher register in numerical order. These unpaid vouchers were recorded and posted during January. They are being entered in the voucher register at the present time because the voucher register for January is not available and because the information about these unpaid vouchers is needed when the vouchers are paid. Enter the date, the number, the name of the creditor, the terms, and the amount of each voucher. Be sure to include the transportation charges in the terms, if the transportation charges are not subject to discount and must be

ABSTRACT OF VOUCHERS PAYABLE, JANUARY 31, 19--

Date	Vchr. No.	Creditor	Amount
Jan. 6	7	J. Wood Manufacturing Co., Chicago; Jan. 5; 2 30, n/60	349 27
17	23	American Brass Co., Chicago; Jan. 16; 2/20, n/60; prepaid transportation, \$26.15	273 46
17	25	Beck's Stationery Store, City; net 30 days	78 64
17	26	Standard Equipment Co., Indianapolis; net 1 mo.	517 29
19	28	Tony's Machine Shop, City; net 30 days	45 25
21	31	J. Wood Manufacturing Co.; Jan. 20; 2/30, n/60	201 01
24	34	American Hard Rubber Co., Chicago; Jan. 23; 2/10, 1/30, n/60; prepaid transportation, \$10.27	122 58
24	37	Mechanical Plating Co., Batavia; net 30 days	234 16
27	39	Culligan Zeolite Co., Northbrook; Jan. 26; 2/15, n/60; prepaid transportation, \$21.85	186 53
29	42	Wm. Powell Co., Cincinnati; Jan. 28; 2/15, n/30; prepaid transportation, \$31.62	350 70
30	46	Inland Supply Co., City; Jan. 30; 1/10, n/30	34 72
31	48	Artercraft Printing Co., City; Jan. 30; net 10 days	51 —
		Total Vouchers Payable	2,444 61

subtracted from the total amount of the invoice before the discount is figured.

Foot the vouchers payable amount column, check the footing with the balance of the vouchers payable account as shown by the post-closing trial balance, record the total, and rule with single and double lines. Place a check mark directly below the total to indicate that this amount has already been posted.

When a page of any journal or register is filled to the single red rule at the bottom of the page, all columns should be totaled and the totals should be carried forward to the next page. The words "Carried Forward" and "Brought Forward" should be written on the lines with the totals.

Since all the items just entered in the voucher register have already been posted, it is not necessary to carry the totals forward to the next page. Current entries in the voucher register should be started on the second double page.

NARRATIVE OF TRANSACTIONS

February 2

No. 1. Issued the following vouchers:

No. 52; Bell Telephone Co.; \$21.37; telephone service and telegrams charged to the telephone bill. (Charge to Miscellaneous Administrative Expense.)

No. 53; Culligan Zeolite Co.; \$65.34; raw materials; invoice dated January 31; terms, 2/15, n/60; invoice includes prepaid transportation, \$5.87.

Record voucher No. 53 in the vouchers payable register only. The entry in the stores ledger for the raw materials will be made by an assistant.

No. 2. Issued the following checks:

No. 2516; Bell Telephone Co.; in payment of voucher No. 52.

No. 2517; American Hard Rubber Co.; \$120.33; in payment of voucher No. 34, \$122.58, less discount of \$2.25.

Notice that the discount is only \$2.25 because discount cannot be taken on the transportation charges.

Make the proper notations in the "Paid" column of the vouchers payable register.

No. 3. Received a check for \$258 from Peck Bros. to apply on account.

No. 4. Shipped order on account to Ackmann & Winn, Evanston; sale No. 44; 1 Model 308A, \$67.50.

Enter this sale in the sales journal. All charge sales are made on terms of "Net 30 days." The terms are not mentioned for each sale, but they should be recorded in the sales journal. The unit cost of Model 308A, \$39, which must be recorded as part of the sales journal entry in the columns headed "Cost of Sales Dr., Finished Goods Cr.," is obtained from the appropriate stock ledger account. Post immediately from the sales journal to the stock ledger account the quantity and the cost price of the model sold in order that the stock ledger will constitute a perpetual inventory of finished goods at the cost price. Follow this procedure for each sale.

No. 5. Issued production order for job No. F23 for 5 units of Model 10E to be completed by February 10 for stock. Issued requisition No. F23 for raw materials to be used in completing this job, \$52.75.

In many manufacturing companies several requisitions for raw materials are issued as the materials are needed for a job. In The Apex Manufacturing Company, however, a job is usually completed rather quickly after it is undertaken and all the materials for one job are commonly requisitioned at one time.

The requisition shows the quantity and the value of each item of raw material requisitioned. An assistant posts these individual items to the stores ledger. As the head bookkeeper, you will be required only to enter the total of the requisition in the requisition journal.

Open a cost sheet in the job cost ledger and enter the requisition in the raw materials section. Follow this procedure for each new job order.

February 3

No. 6. Shipped order on account to E. Erickson, South Bend; sale No. 45; 1 Model 310A, \$75, and 1 Model 314A, \$105.

In the sales journal record the charge to E. Erickson as one amount, but use a separate line for the cost price of each model.

No. 7. Received a Chicago bank draft for \$442.50 from the Hoosier Plumbing Co. to apply on account.

No. 8. Received a credit memorandum from the Culligan Zeolite Co. for an overcharge of \$1 on their invoice of January 26, covered by our voucher No. 39. Issued new voucher No. 54 for the amount of the corrected invoice.

In addition to the entry in the vouchers payable register for the new voucher, an entry in the general journal should be made to cancel the old voucher by debiting Vouchers Payable and crediting Raw Materials.

No. 9. Production jobs completed:

No. F20; 3 units Model 308E; direct labor since January 31, \$15.

No. F21; 1 unit Model 312E; direct labor since January 31, \$1.70.

In some factories the direct labor charges might be entered daily on the cost sheets from the workers' time tickets. In The Apex Manufacturing Company, however, the time tickets are sorted by jobs and the amounts are totaled at the end of each month and on the completion of each job. A job started in one fiscal period and completed in the next fiscal period will have the direct labor charges recorded at two times: (1) at the end of the first fiscal period, the total amount of the direct labor charges up to that date; (2) when the job is completed, the total amount of the direct labor charges from the end of the preceding fiscal period until the time when the job is completed.

Proceed as follows: (1) Record the direct labor charges for each job on the appropriate cost sheet; (2) record the overhead for February in the summary section of the cost sheet at 60% of the direct labor charges for February; (3) complete the summary on the cost sheet; (4) record each finished job in the finished goods journal; and (5) post immediately from the finished goods journal to the appropriate stock ledger accounts so that the stock ledger will constitute a perpetual inventory of finished goods at the cost price.

February 4

No. 10. Issued production order for job No. F24 for 4 units of Model 318E to be completed by February 12 for stock. Issued requisition No. F24 for raw materials to be used in completing this job, \$78.76.

No. 11. Received check for \$268.50 from Ackmann & Winn to apply on account.

No. 12. Issued credit memorandum No. 7 to Ackmann & Winn for an allowance of \$5.

No. 13. Issued the following vouchers:

No. 55; Inland Supply Co.; \$72.40; supplies for the factory; terms, 1/10, n/30; invoice dated today.

No. 56; Great Lakes Publishing Co.; \$48; advertising.

No. 14. Issued the following checks:

No. 2518; Great Lakes Publishing Co.; in payment of voucher No. 56.

No. 2519; J. Wood Manufacturing Co.; in payment of voucher No. 7, less discount.

No. 15. Shipped order on account to Ohio Plumbing Co., Cleveland; sale No. 46; 3 Model 312A @ \$86.

February 5

No. 16. Issued production order for job No. F25 for 6 units of Model 308A to be completed by February 12 for stock. Issued requisition No. F25 for raw materials to be used in completing this job, \$48.36.

No. 17. Completed job No. F22; direct labor since January 31, \$101.75.

No. 18. Received remittances from customers as follows:

E. Erickson; \$142.50; to apply on account.

Elvin Hedgecock; \$643.50; to apply on account.

No. 19. Shipped order on account to Bernard Wahl, St. Louis; sale No. 47;

1 Model 308A, \$67.50

2 Model 310A @ \$75

2 Model 312A @ \$86

After posting from the sales journal to the stock ledger accounts, note that the two credits in the account with Model 308A equal the first debit. Rule off the account by drawing a single line across the columns headed "Number of Units Manufactured" and "Cost of Job Order" on the debit side and "Number of Units Shipped" and "Cost of Shipment" on the credit side. The account with Model 310A is also in balance and should be ruled off in the same manner.

No. 20. Issued vouchers as follows:

No. 57; American Brass Co.; \$89.90; raw materials; invoice dated February 4; terms, 2/20, n/60; invoice includes prepaid transportation, \$7.55.

No. 58; I. D. Atchinson; \$10.26; entertainment of visiting dealers.

No. 21. Issued the following checks:

No. 2520; I. D. Atchinson; in payment of voucher No. 58.

No. 2521; American Brass Co.; in payment of voucher No. 23 less discount.

Remember that the discount is to be figured on the net value of the merchandise, that is, the total of the invoice less the transportation charges.

February 6

No. 22. The account with L. G. Tillotson is considered uncollectible and is written off.

No. 23. Issued production order for job No. F26 for 5 units of Model 310A to be completed by February 14 for stock. Issued requisition No. F26 for raw materials to be used in completing this job, \$48.62.

No. 24. Shipped order on account to Capitol Plumbers, Inc., Madison; sale No. 48;

3 Model 312A @ \$86

1 Model 318A, \$142.50

1 Model 324A, \$232.50

February 7

No. 25. Received check for \$67.50 from M. Farroh & Sons to apply on account.

No. 26. Issued voucher No. 59 for \$505.30 to Pay Roll for factory wages for the week; direct labor, \$409.30, and indirect labor, \$96.

Note that there are special columns in the voucher register for debits to Direct Labor and Indirect Labor.

No. 27. Issued check No. 2522 for \$500.25 to Pay Roll in payment of voucher No. 59 less 1% for Federal old-age insurance taxes.

In the check register, Vouchers Payable is debited for the face of the voucher, \$505.30; Federal Old-Age Insurance Taxes Payable is credited for the amount withheld, \$5.05; and Cash is credited for the net payment, \$500.25.

No. 28. Record in the general journal the employer's liabilities for employment taxes. The pay-roll clerk reports to you that this entry requires the following debits and credits:

Debits: Social Security Taxes—Factory, \$6.57

State Unemployment Contributions—Factory, \$13.64

Credits: Federal Old-Age Insurance Taxes Payable, \$5.05

Federal Unemployment Taxes Payable, \$1.52

State Unemployment Contributions Payable, \$13.64

Cash Proof and Posting. In each of the books of original entry that have both debit and credit amount columns, foot the amount columns in small pencil figures and prove the equality of the debit and credit footings.

Prove the bank account balance (\$2,591.65). Record this balance in small pencil figures in the explanation column of the cash receipts journal just below the horizontal line on which the last entry appears.

Complete the individual posting from all books of original entry. Do not post the totals of the amount columns in any of the books of original entry until the end of the month.

February 9

No. 29. Issued voucher No. 60 to Tony's Machine Shop; \$85.85; repairs on factory machinery; terms, net 30 days.

No. 30. Completed job No. F23; total direct labor, \$109.50.

Complete the cost sheet (recording overhead as 60% of the direct labor), record the finished job in the finished goods journal, and post to the stock ledger.

No. 31. Issued the following checks:

No. 2523; Inland Supply Co.; in payment of voucher No. 46 less discount.

No. 2524; Artercraft Printing Co.; in payment of voucher No. 48.

No. 32. Issued production order for job No. F27 for 3 units of Model 314E to be completed by February 16 for stock. Issued requisition No. F27 for raw materials to be used in completing this job, \$47.92.

No. 33. Shipped order on account to R. S. Barnes, Waukegan; sale No. 49; 3 Model 310E @ \$78.50 and 1 Model 312A, \$86.

No. 34. Received remittances from dealers as follows:

Capitol Plumbers, Inc.; \$158.50; to apply on account.

W. M. Wilson; \$330.50; in full of account.

February 10

No. 35. Issued production order for job No. F28 for 6 units of Model 314A to be completed by February 17 for stock. Issued requisition No. F28 for raw materials to be used in completing this job, \$82.92.

No. 36. Issued the following vouchers:

No. 61; Artercraft Printing Co.; \$157; advertising circulars; terms, net 30 days. (Charge to Sales Department Supplies.)

No. 62; Beck's Stationery Store; \$8.67; supplies for the office; terms, net 30 days.

No. 37. Issued check No. 2525 to the Culligan Zeolite Co. in payment of voucher No. 54 less discount.

February 11

No. 38. Completed job No. F25; total direct labor, \$116.25.

No. 39. Received a check for \$142.50 from McAllister & Rippberger to apply on account.

No. 40. Shipped order on account to South Side Plumbing Co., Chicago; sale No. 50;

- 1 Model 308A, \$67.50
- 1 Model 310E, \$78.50
- 2 Model 312A @ \$86
- 1 Model 314A, \$105
- 1 Model 324A, \$232.50

Six lines will be needed in the sales journal to record the cost prices for this sale. A separate line is needed for each unit of Model 312A because each has a different production cost.

In this practice set the *first-in, first-out rule* will be applied to the stock of finished goods. The first-in, first-out rule is based on the theory that the goods first produced are the goods first sold and that the goods in stock are the goods most recently produced.

No. 41. Issued voucher No. 63 for \$38.81 to American Hard Rubber Co. for raw materials. The invoice, dated February 10, provides for terms of 2/10, n/60 and includes transportation charges of \$3.46.

No. 42. Received credit memorandum for \$12.38 from the American Brass Co. for returned raw materials included in their invoice of February 4 and our voucher No. 57. Canceled the old voucher and issued new voucher No. 64 for \$77.52.

February 12

No. 43. Received bank cashier's check for \$500 from Elvin Hedgecock in full of account.

No. 44. Issued voucher No. 65 for \$10 to Tony's Machine Shop for rental of machine used in factory.

No. 45. Issued the following checks:

No. 2526; Tony's Machine Shop; in payment of voucher No. 65.

No. 2527; Wm. Powell Co.; in payment of voucher No. 42 less discount.

No. 46. Completed job No. F24; total direct labor, \$157.50.

No. 47. Shipped order on account to Suburban Plumbers, Oak Park; sale No. 51; 2 Model 308E @ \$70.

February 13

No. 48. Issued credit memorandum No. 8 to R. S. Barnes for an allowance of \$3.50.

No. 49. Completed job No. F27; total direct labor, \$86.75.

No. 50. Shipped order on account to Twin-City Plumbers, Inc., Minneapolis; sale No. 52; 2 Model 308A @ \$67.50 and 2 Model 312A @ \$86.

No. 51. Received remittances as follows:

Shore-Line Plumbing Co.; \$210; in full of account.

Peck Bros.; \$248; in full of account.

No. 52. Issued production order for job No. F29 for 5 units of Model 312A to be completed by February 20 for stock. Issued requisition No. F29 for raw materials to be used in completing this job, \$56.95.

No. 53. Issued vouchers as follows:

No. 66; J. Wood Manufacturing Co.; \$165.09; raw materials; invoice dated February 12; terms, 2/30, n/60.

No. 67; Chicago & Northwestern Railway Co.; \$17.86; freight on shipment from the J. Wood Manufacturing Co.

No. 54. Issued check No. 2528 to the Chicago & Northwestern Railway Co. in payment of voucher No. 67.

February 14

No. 55. Issued production order for job No. F30 for 1 unit of Model 324E to be completed by February 21 for stock. Issued requisition No. F30 for raw materials to be used in completing this job, \$39.55.

No. 56. Completed job No. F26; total direct labor, \$106.80.

No. 57. Shipped order to Leech Plumbing Co., Elgin; sale No. 53; 2 Model 318E @ \$149.

No. 58. Issued voucher No. 68 for \$889.65 to Pay Roll; direct labor, \$406.65, and indirect labor, \$95.50, for the week; sales salaries, \$162.50, and office salaries, \$225, for the first half of the month.

No. 59. Issued the following checks:

No. 2529; Culligan Zeolite Co.; in payment of voucher No. 53 less discount.

No. 2530; Inland Supply Co.; in payment of voucher No. 55 less discount.

No. 2531; Pay Roll; in payment of voucher No. 68 less \$8.90 for Federal old-age insurance taxes.

No. 60. Record in the general journal the employer's liabilities for employment taxes. The pay-roll clerk reports to you that this entry requires the following debits and credits:

Debits: Social Security Taxes--Factory, \$6.53
State Unemployment Contributions--Factory, \$13.56
Social Security Taxes --Sales Department and Office, \$5.04
State Unemployment Contributions--Sales Department
and Office, \$10.46

Credits: Federal Old-Age Insurance Taxes Payable, \$8.90
Federal Unemployment Taxes Payable, \$2.67
State Unemployment Contributions Payable, \$24.02

Checkup. At this point it is advisable to check the accuracy of your work up to the present time.

In each of the books of original entry that have both debit and credit amount columns, foot the amount columns in small pencil figures and prove the equality of debit and credit footings. Prove the bank account balance (\$2,524.76). Make the proper pencil notation of the balance in the cash receipts journal. Pencil foot all money columns in other journals. Check all column totals with the totals given on page 158 of this book.

Complete the individual posting from all books of original entry. Do not post totals at this time. On a separate sheet of paper prepare abstracts of accounts receivable, goods in process, finished goods, and vouchers payable. Check the totals with the totals given on page 158 of this book.

If there are any differences between your solution and the answers given on page 158, find and correct your errors before you proceed with the work of this set.

February 16

No. 61. Issued credit memorandum No. 9 to South Side Plumbing Co. for an overcharge of \$32.78 on sale No. 50 resulting from a failure to deduct a quantity discount of 5% from the invoice cost on an order of six or more units. (Be sure to debit Sales, as this is an overcharge and not an allowance.)

No. 62. Issued production order for job No. F31 for 2 units of Model 324A to be completed by February 23 for stock. Issued requisition No. F31 for raw materials to be used in completing this job, \$61.60.

No. 63. Completed job No. F28; total direct labor, \$173.85.

No. 64. Shipped order on account to Eggen & Stumpf, Columbus;
No. 54; a quantity discount of 5% is made on this order;

2 Model 310A @ \$75

3 Model 312A @ \$86

1 Model 312E, \$91

1 Model 318E, \$149

No. 65. Received check for \$240 from Coleman Supply Co. in full of
ount.

No. 66. Issued check No. 2532 to Beck's Stationery Store in payment
oucher No. 25.

February 17

No. 67. Issued vouchers as follows:

No. 69; Grinnell Co., Chicago; \$73.12; raw materials; invoice
dated February 16; terms, 2/10, n/60.

No. 70; Milwaukee Railroad; \$9.66; transportation on shipment
from Grinnell Co.

No. 68. Issued the following checks:

No. 2533; Milwaukee Railroad; in payment of voucher No. 70.

No. 2534; Standard Equipment Co.; in payment of voucher
No. 26.

No. 69. Issued production order for job No. F32 for 3 units of Model
E to be completed by February 24 for stock. Issued requisition No. F32
raw materials to be used in completing this job, \$38.53.

February 18

No. 70. Received checks from customers as follows:

Eggen & Stumpf; \$91; to apply on account.

Suburban Plumbers; \$500; to apply on account.

No. 71. Completed job No. F29; total direct labor, \$119.

No. 72. Shipped order on account to M. Farroh & Sons, Davenport;
e No. 55; 2 Model 314A @ \$105 and 2 Model 314E @ \$110.

No. 73. Issued voucher No. 71; Inland Supply Co.; \$53.04; supplies
the factory; invoice dated today; terms, 1/10, n/30.

No. 74. Issued check No. 2535 to Tony's Machine Shop in payment
voucher No. 28.

February 19

No. 75. Issued production order for job No. F33 for 4 units of Model
8A to be completed by February 28 for stock. Issued requisition No. F33
raw materials to be used in completing this job, \$35.80.

No. 76. Received Chicago bank draft for \$446 from E. Erickson in
ll of account.

No. 77. Completed job No. F30; total direct labor, \$61.70.

No. 78. Issued check No. 2536 to J. Wood Manufacturing Co. in payment of voucher No. 31 less discount.

No. 79. Shipped order to Shore-Line Plumbing Co., Kenosha; sale No. 56; 2 Model 308A @ \$67.50.

February 20

No. 80. Received checks as follows:

Leech Plumbing Co.; \$244.50; to apply on account.

Paul Cundy; \$500; in payment for 5 shares of preferred stock, par value \$100 each.

No. 81. Shipped order on account to Coleman Supply Co., Indianapolis; sale No. 57; 2 Model 312A @ \$86 and 2 Model 314A @ \$105.

No. 82. Issued voucher No. 72 for \$15 to increase the size of the petty cash fund.

No. 83. Issued checks as follows:

No. 2537; American Hard Rubber Co.; in payment of voucher No. 63 less discount.

No. 2538; Petty Cash; in payment of voucher No. 72.

February 21

No. 84. Completed job No. F31; total direct labor, \$128.60.

No. 85. Issued production order for job No. F34 for 2 units of Model 314E to be completed by February 28 for stock. Issued requisition No. F34 for raw materials to be used in completing this job, \$40.02.

No. 86. Received a Chicago bank draft for \$300 from the Hoosier Plumbing Co. to apply on account.

No. 87. Issued the following vouchers:

No. 73; City Light & Gas Co.; \$86.23; monthly bill.

No. 74; Pay Roll; \$506.25; wages for the week; direct labor, \$409.75, and indirect labor, \$96.50.

No. 88. Issued the following checks:

No. 2539; City Light & Gas Co.; in payment of voucher No. 73.

No. 2540; Pay Roll; in payment of voucher No. 74 less \$5.06 for Federal old-age insurance taxes.

No. 89. Record the employer's liabilities for employment taxes. The pay-roll clerk reports that this entry requires the following debits and credits:

Debits: Social Security Taxes—Factory, \$6.58
State Unemployment Contributions—Factory, \$13.67

Credits: Federal Old-Age Insurance Taxes Payable, \$5.06
Federal Unemployment Taxes Payable, \$1.52
State Unemployment Contributions Payable, \$13.67

Cash Proof and Posting. In each of the books of original entry that have both debit and credit amount columns, foot the amount columns in small pencil figures and prove the equality of the debit and credit footings.

Prove the bank account balance (\$3,357.91). Make the proper pencil notation in the cash receipts journal.

Complete the individual posting from all books of original entry. Do not post totals at this time.

February 23

No. 90. Shipped order on account to W. M. Wilson, Joliet; sale No. 58; 1 Model 324E, \$242.50.

No. 91. Received check for \$665.50 from McAllister & Rippberger in full of account.

No. 92. Issued production order for job No. F35 for 3 units of Model 310A to be completed by March 2 for stock. Issued requisition No. F35 for raw materials to be used in completing this job, \$30.40.

No. 93. Issued voucher No. 75; Wm. Powell Co.; \$111.53; raw materials; invoice dated February 21; terms, 2/15, n/30; invoice includes prepaid transportation, \$10.26.

No. 94. Received credit memorandum for \$4.21 from the Grinnell Co. for an allowance on raw materials included in their invoice of February 16 and our voucher No. 69. Issued new voucher No. 76 and canceled the old voucher.

No. 95. Issued check No. 2541 to Mechanical Plating Co. in payment of voucher No. 37.

February 24

No. 96. Issued check No. 2542 to American Brass Co. in payment of voucher No. 64 less discount.

No. 97. Completed job No. F32; total direct labor, \$76.25.

No. 98. Received bank cashier's check for \$239 from the Suburban Plumbers to apply on account.

No. 99. Shipped order on account to McAllister & Rippberger, Aurora; sale No. 59; 2 Model 310A @ \$75.

No. 100. Issued production order for job No. F36 for 6 units of Model 312A to be completed by March 4 for stock. Issued requisition No. F36 for raw materials to be used in completing this job, \$68.72.

No. 101. Issued credit memorandum No. 10 to Coleman Supply Co. for 1 Model 312A returned, \$86.

This transaction requires two general journal entries: (1) debit Returned Sales and Allowances and credit the dealer for the sales price and (2) debit Finished Goods and credit Cost of Sales for the cost price of the unit returned to stock. The cost price can be determined from the sales journal.

Record the appropriate debit in the stock ledger account.

February 25

No. 102. Issued voucher No. 77; Wm. Crawford & Co., City; \$12.24; supplies for sales department; invoice dated today; terms, 1/10, n/30.

No. 103. Issued production order for job No. F37 for 3 units of Model 310E to be completed by March 4 for stock. Issued requisition No. F37 for raw materials to be used in completing this job, \$36.40.

No. 104. Shipped the following dealers' orders on account:

Sale No. 60; Hoosier Plumbing Co., Gary; 2 Model 312E @ \$91.
Sale No. 61; Peck Bros., Fort Wayne; 1 Model 318A, \$142.50.

No. 105. Received a check for \$75 from M. Farroh & Sons to apply on account.

February 26

No. 106. Completed job No. F34; total direct labor, \$51.50.

No. 107. Shipped order on account to Capitol Plumbers, Inc., Madison; sale No. 62; 2 Model 312A @ \$86.

No. 108. Received check for \$135 from Ackmann & Winn in full of account.

No. 109. Issued production order for job No. F38 for 2 units of Model 318A to be completed by March 3 for stock. Issued requisition No. F38 for raw materials to be used in completing this job, \$30.95.

No. 110. Issued vouchers as follows:

No. 78; J. Wood Manufacturing Co.; \$136.66; raw materials; invoice dated February 25; terms, 2/30, n/60.

No. 79; Chicago & Northwestern Railway Co.; \$14.52; transportation on the shipment from J. Wood Manufacturing Co.

No. 111. Issued the following checks:

No. 2543; Chicago & Northwestern Railway Co.; in payment of voucher No. 79.

No. 2544; Grinnell Co.; in payment of voucher No. 76 less discount.

February 27

No. 112. Completed the following jobs:

No. F33; total direct labor, \$74.25.

No. F35; total direct labor, \$62.75.

No. 113. Received credit memorandum for \$8.76 from Wm. Powell Co. for the return of raw materials included in their invoice of February 21 and our voucher No. 75. Canceled the old voucher and issued new voucher No. 80.

No. 114. Shipped order on account to Ohio Plumbing Co., Cleveland; sale No. 63; 3 Model 308A @ \$67.50 and 2 Model 314A @ \$105.

No. 115. Received check for \$150 from Twin-City Plumbers, Inc., to apply on account.

February 28

No. 116. Received a Chicago bank draft for \$142.50 from the Hoosier Plumbing Co. to apply on account.

No. 117. Issued the following vouchers:

No. 81; Rapid Delivery Co.; \$48.92; delivery charges for the month.

No. 82; \$48.24; renewal of petty cash fund as follows: Factory Supplies, \$1.30; Sales Department Supplies, \$4.01; Office Supplies, \$3.97; Miscellaneous Factory Expense, \$10.08; Advertising Expense, \$6.50; Delivery Expense, \$7.50; Miscellaneous Selling Expense, \$7.65; and Miscellaneous Administrative Expense, \$7.23.

No. 83; Pay Roll; \$1,418.95; wages and salaries; direct labor, \$409.70, indirect labor, \$96.75, sales salaries, \$387.50, and office salaries, \$525.

No. 118. Issued the following checks:

No. 2545; Inland Supply Co.; in payment of voucher No. 71.

No. 2546; Rapid Delivery Co.; in payment of voucher No. 81.

No. 2547; Petty Cash; in payment of voucher No. 82.

No. 2548; Pay Roll; in payment of voucher No. 83 less \$14.19 for Federal old-age insurance taxes.

No. 119. Record the employer's liabilities for employment taxes. The pay-roll clerk reports that this entry requires the following debits and credits:

Debits: Social Security Taxes—Factory, \$6.58
State Unemployment Contributions—Factory, \$13.67
Social Security Taxes—Sales Department and Office, \$11.87
State Unemployment Contributions—Sales Department and Office, \$24.64

Credits: Federal Old-Age Insurance Taxes Payable, \$14.19
Federal Unemployment Taxes Payable, \$4.26
State Unemployment Contributions Payable, \$38.31

No. 120. The direct labor on the unfinished job orders is as follows:

Job No. 36; direct labor to February 28, \$132.

Job No. 37; direct labor to February 28, \$35.50.

Job No. 38; direct labor to February 28, \$24.75.

Record the direct labor and the overhead (60% of the direct labor) on the cost sheets for the unfinished job orders.

Cash Proof and Posting. In each of the books of original entry that have both debit and credit amount columns, foot the amount columns in small pencil figures and prove the equality of the debit and credit footings.

Prove the bank account balance (\$2,818.15).

Complete the individual posting from all books of original entry.

WORK AT THE END OF THE FISCAL PERIOD

(1) Total and rule all the books of original entry. Check your column totals with the totals given on page 158 of this book. Post the totals of the special columns to the appropriate accounts in the general ledger.

(2) Prepare abstracts and prove them with the appropriate accounts as follows:

- (a) An abstract of accounts receivable similar to that shown on page 124. Use one side of one of the sheets of statement paper included in the envelope for the practice set. Prove this abstract with the balance of the accounts receivable account.
- (b) An abstract of goods in process similar to that shown on page 124. Use the bottom part of the sheet on which you prepared the abstract of accounts receivable. There is no one account with which this balance can be checked because only the raw materials and the finished goods have been recorded in the goods in process account. The entries charging goods in process for direct labor and overhead have not yet been made. To prove the abstract of goods in process, add to the balance of the direct labor account the overhead applied (60% of the direct labor) and subtract the credit balance of the goods in process account.
- (c) An abstract of finished goods similar to that shown on page 125. If different unit costs apply to the inventory for a model, use a separate line for each different unit cost. Use the reverse side of the sheet on which you prepared the two preceding abstracts. Prove this abstract with the balance of the finished goods account.
- (d) An abstract of vouchers payable similar to that shown on page 126, except that the addresses and the terms need not be given. Use the bottom part of the sheet on which you prepared the abstract of finished goods. Prove this abstract with the balance of the vouchers payable account.

Your assistant submits an abstract of the stores ledger with a total of \$5,129.04. Check with the balance of the raw materials account.

Check your work with the solutions on page 159 of this book

(3) Prepare a ten-column work sheet. Use the work sheet forms included in the set. The data for the necessary adjustments are as follows:

- (a) Add $\frac{1}{2}\%$ of net sales to the reserve for bad debts.
- (b) Inventories:
 - Factory supplies, \$55.75.
 - Sales department supplies, \$214.85.
 - Office supplies, \$60.34.
- (c) Prepaid insurance, \$356.
 - Three fourths of the expired insurance should be charged to the factory and one fourth to the office.
- (d) Depreciation:
 - Equipment for the factory and office, 10% a year.
 - Building, $3\frac{1}{2}\%$ a year.
 - Three fourths of the building depreciation should be charged to the factory and one fourth to the office.
- (e) Accrued property taxes, \$21.75.
 - Three fourths of the accrued property taxes should be charged to the factory and one fourth to the office.
- (f) Manufacturing adjusting entries:
 - Transfer the balance of the direct labor account to Goods in Process by debiting Goods in Process and crediting Direct Labor.
 - Record the applied overhead cost at 60% of the direct labor cost by debiting Goods in Process and crediting Overhead.
 - Transfer the balances of the individual manufacturing expense accounts to Overhead by debiting Overhead for the total amount and crediting each individual manufacturing expense account. (Remember that the balance of the overhead account is reported on the balance sheet and is extended to the balance sheet section of the work sheet.)

The estimated amount of the Federal income taxes on the net profit of The Apex Manufacturing Company for February is \$150.

The amount of the account Provision for Federal Income Taxes, \$1,053.45, includes the amount of the income taxes for the preceding year—payable during the present year—and the estimated amount for January. As the amount of the income taxes represents a relatively large share of the net profit, the management decided that some provision for income taxes should be made each month, even though the exact amount could not be definitely ascertained until the end of the year.

The income taxes are expected to be about 20% of the net profit; therefore approximately 20% of the net profit for February, or \$150, is to be set aside as a provision for Federal income taxes. This income tax

SOLUTIONS

PRETEST

SECTION A

Debits	Credits
1. 17, 26	1, 5
2. 1, 5	20
3. 2, 6	22, 23, 27
4. 21, 23	2, 6
5. 4	22, 23
6. 4, 9	2, 6
7. 15	2, 6
8. 4	15, 11
9. 1, 5	4, 8
10. 14, 10	4
11. 24	1, 5
12. 25	24
13. 18	2, 6
14. 2, 6	18
15. 4	2, 6
16. 3	18
17. 7	19
18. 13	11
19. 10	12
20. 11	13

SECTION B

1. A, D, E, G, L	18. B, E, J
2. A, C, F, G	19. A, D, E, G, K
3. A, C, F, G	20. A, D, F, G
4. A, C, F, G	21. A, D, F, G
5. A, C, F, G	22. A, C, F, G
6. B, E, J	23. A, C, F, G
7. A, C, E, G, L	24. B, E, J
8. A, D, F, G	25. A, C, E, G, L
9. B, E, J	26. A, C, F, G
10. A, C, E, G, K	27. A, D, F, G
11. A, D, F, G	28. A, D, F, G
12. A, D, F, G	29. A, D, F, G
13. A, D, F, G	30. A, C, E, G, L
14. A, D, E, G, K	31. B, E, J
15. A, C, F, G	32. B, E, J
16. A, C, F, G	33. A, D, E, G, K
17. B, E, J	

CHAPTER 1

PROPRIETORSHIP IN A CORPORATION

STUDY GUIDE 1

Unit A

1. (R)	11. (N)
2. (C)	12. (O)
3. (T)	13. (M)
4. (S)	14. (P)
5. (A)	15. (D)
6. (V)	16. (E)
7. (J)	17. (U)
8. (F)	18. (K)
9. (Q)	19. (B)
10. (H)	20. (L)

Unit B

1.	False	14.	False
2. True		15.	False
3. True		16. True	
4.	False	17. True	
5. True		18. True	
6.	False	19.	False
7. True		20. True	
8.	False	21. True	
9.	False	22.	False
10. True		23. True	
11.	False	24. True	
12. True		25. True	
13. True			

Exercise 1, Page 10

PER SHARE	(1)						(2)						(3)					
	a	b	c	d	e	f	a	b	c	d	e	f	a	b	c	d	e	f
Paid on Preferred Stock. . .	6	6	4	2	6	6	6	6	4	2	12	6	6	6	4	2	12	10
Paid on Common Stock. . .	2	6	-	-	10	14	2	6	-	-	4	14	2	6	-	-	4	10
Accumulated on Preferred Stock	-	-	-	-	-	-	-	-	2	6	-	-	-	-	2	6	-	-

(4) Book value of each share of common stock, \$165.

Exercise 2, Page 10

(A)

PROPRIETORSHIP

Capital Stock	10000	—
Surplus.	2432	50
Total Proprietorship	12432	50

(B)

PROPRIETORSHIP

Capital Stock, Common	5000	—
Capital Stock, Preferred	5000	—
Surplus.	1050	18
Total Proprietorship	11050	18

(C)

PROPRIETORSHIP

Capital Stock, Common	8000	—
Capital Stock, Preferred	5000	—
Total Capital Stock	13000	—
Less Deficit.	8203	15
Total Proprietorship	4796	85

Exercise 3, Page 11

(1) and (2)

CORPORATION A

YEAR	INCOME	TO PREFERRED STOCK	BALANCE DUE ON PREFERRED STOCK	TO COMMON STOCK	TO SURPLUS OR DEFICIT	BALANCE OF SURPLUS OR DEFICIT
1932	(\$ 8,000)		\$ 6,000		(\$ 8,000)	(\$ 8,000)
1933	(15,000)		12,000		(15,000)	(23,000)
1934	5,000		18,000		5,000	(18,000)
1935	12,000		21,000		12,000	(6,000)
1936	22,000	\$16,000	11,000		6,000	...
1937	30,000	20,000	..	\$5,000	5,000	5,000
1938	16,000	6,000	...	5,000	5,000	10,000
1939	4,000	6,000	...	...	(2,000)	8,000
1940	9,000	6,000	...	1,500	1,500	9,500
1941	18,000	6,000	.....	6,000	6,000	15,500

CORPORATION B

YEAR	INCOME	TO PREFERRED STOCK	BALANCE DUE ON PREFERRED STOCK	TO COMMON STOCK	TO SURPLUS OR DEFICIT	BALANCE OF SURPLUS OR DEFICIT
1932	\$ 6,000	\$ 6,000				
1933	(6,000)		\$ 6,000		(\$6,000)	(\$ 6,000)
1934	(2,000)		12,000		(2,000)	(8,000)
1935	3,000		18,000		3,000	(5,000)
1936	15,000	10,000	14,000		5,000	
1937	24,000	20,000		\$2,000	2,000	2,000
1938	12,000	6,000		3,000	3,000	5,000
1939	1,000	6,000			(5,000)	
1940	10,000	6,000		2,000	2,000	2,000
1941	16,000	6,000		5,000	5,000	7,000

CHAPTER 2

ORGANIZATION OF A CORPORATION

STUDY GUIDE 2

Unit A	Unit B	Unit C
1. California	1. automobile accessories	1. (B) 11. (C)
2. \$80,000	2. Los Angeles, California	2. (C) 12. (B)
3. \$31,700	3. five	3. (C) 13. (B)
4. \$100	4. one	4. (A) 14. (A)
5. upon completion of organization	5. 800	5. (C) 15. (A)
6. five	6. \$80,000	6. (B) 16. (A)
7. treasurer	7. \$31,700	7. (A) 17. (C)
8. 150	8. January 2, 1941	8. (C) 18. (C)
9. \$15,000	9. County of Los Angeles	9. (B) 19. (A)
10. December 23, 1940	10. 1991	10. (C) 20. (B)

Exercise 4, Page 24

(1) and (2)

In the cash receipts journal, the total of both the General Ledger Cr. column and the Net Cash Dr. column should be \$8,500.

In the cash payments journal, Organization Expenses is debited for \$197.50 in the General Ledger Dr. column and credited for the same amount in the Net Cash Cr. column.

194—

July	5 Subscriptions Receivable, Preferred	2500 —	
	Capital Stock Subscribed, Preferred.		2500
Aug.	8 Subscriptions Receivable, Preferred	1250 —	
	Capital Stock Subscribed, Preferred.		1250
	15 Subscriptions Receivable, Common	500 —	
	Capital Stock Subscribed, Common.		500 —
Sept.	5 Capital Stock Subscribed, Preferred	2500 —	
	Capital Stock, Preferred.		2500 —
	15 Capital Stock Subscribed, Common	500 —	
	Capital Stock, Common		500 —
	30 Capital Stock Subscribed, Preferred	1250 —	
	Capital Stock, Preferred		1250 —

SOLUTIONS

147

Exercise 5, Page 25

(1)

194-			
Sept. 30	Goodwill	329.70	
	R. E. Bahr, Capital		219.80
	M. J. Berg, Capital		109.90

(2)

194-			
Sept. 30	University Cafes, Inc.	9875.95	
	Reserve for Depreciation of Kitchen Equipment	160.00	
	Reserve for Depreciation of Dining Room Equipment	217.50	
	Cash		465.50
	Accounts Receivable		250.00
	Food Inventory		1432.80
	Supplies		225.45
	Kitchen Equipment		3200.00
	Dining Room Equipment		4350.00
	Goodwill		329.70
30	Notes Payable	500.00	
	Accounts Payable	375.95	
	University Cafes, Inc.		875.95
30	Capital Stock, Common, in University Cafes, Inc.	9000.00	
	University Cafes, Inc.		9000.00
30	R. E. Bahr, Capital	6000.00	
	M. J. Berg, Capital	3000.00	
	Capital Stock, Common, in University Cafes, Inc.		9000.00

(3)

194-			
Oct. 1	Cash	✓ 465.50	
	Accounts Receivable		250.00
	Food Inventory		1432.80
	Supplies		225.45
	Kitchen Equipment		3200.00
	Dining Room Equipment		4350.00
	Goodwill		329.70
	Reserve for Depreciation of Kitchen Equipment		160.00
	Reserve for Depreciation of Dining Room Equipment		217.50
	University Cafe		9875.95
1	University Cafe	875.95	
	Notes Payable		500.00
	Accounts Payable		375.95
1	University Cafe	9000.00	
	Capital Stock, Common		9000.00

CASH RECEIPTS JOURNAL

DATE	ACCOUNT CREDITED	POST. REF.	GENERAL LEDGER CR.	ACCOUNTS RECEIVABLE CR.	NET CASH DR.
194- Oct. 1	University Cafe	✓	465.50		465.50
1	Capital Stock, Preferred		8000.00		8000.00

CHAPTER 3 **CORPORATE RECORDS** **STUDY GUIDE 3**

Unit A	Unit B	Unit C																																	
<ol style="list-style-type: none"> 1. capital stock 2. subscription book 3. general journal 4. subscription cash record 5. subscription blanks 6. in installments 7. subscribers' 8. capital stock 9. shares of stock 10. only a part 11. earned 12. minus proprietorship 13. an asset 14. mortgage 15. fixed 	<table border="1"> <thead> <tr> <th></th><th>Debit</th><th>Credit</th></tr> </thead> <tbody> <tr><td>1.</td><td>8</td><td>4</td></tr> <tr><td>2.</td><td>5</td><td>8</td></tr> <tr><td>3.</td><td>4</td><td>3</td></tr> <tr><td>4.</td><td>9</td><td>5</td></tr> <tr><td>5.</td><td>5</td><td>9</td></tr> <tr><td>6.</td><td>5</td><td>1</td></tr> <tr><td>7.</td><td>7</td><td>5</td></tr> <tr><td>8.</td><td>2</td><td>5</td></tr> <tr><td>9.</td><td>1</td><td>2</td></tr> <tr><td>10.</td><td>9</td><td>6</td></tr> </tbody> </table>		Debit	Credit	1.	8	4	2.	5	8	3.	4	3	4.	9	5	5.	5	9	6.	5	1	7.	7	5	8.	2	5	9.	1	2	10.	9	6	<ol style="list-style-type: none"> 1. (R) 2. (O) 3. (K) 4. (L) 5. (M) 6. (N) 7. (E) 8. (D) 9. (S) 10. (A) 11. (G) 12. (B) 13. (C) 14. (F) 15. (I)
	Debit	Credit																																	
1.	8	4																																	
2.	5	8																																	
3.	4	3																																	
4.	9	5																																	
5.	5	9																																	
6.	5	1																																	
7.	7	5																																	
8.	2	5																																	
9.	1	2																																	
10.	9	6																																	

Exercise 6, Page 38

(1) and (2)

In the cash receipts journal, the total of both the General Ledger Cr. column and the Net Cash Dr. column should be \$34,550.

In the subscription cash record, the total of the Common column should be \$1,550 after the six entries are recorded.

STOCK TRANSFER BOOK

DATE	SERIAL NO. OF CANCELED CERTIFICATE	NO. OF SHARES	BY WHOM SURRENDERED	TO WHOM ISSUED	POST. REF.	SERIAL NO. OF NEW CERTIFICATE	NO. OF SHARES
194-Jan.	17	4					
	21	3	G. C. Haas	L. O. Cooper	✓	5	5
		5	F. X. Reilly	F. X. Reilly	✓	6	70
				M. F. Conforti	✓	7	5
194-Jan.	11				✓	1800	—
					✓		1800
	15				✓	200	—
					✓		200
	30				✓	200	—
					✓		200

GENERAL LEDGER

ACCOUNT	DEBIT BALANCE	CREDIT BALANCE
Cash.....	34,550 —	...
Subscriptions Receivable.....	2,000 —	1,550 —
Capital Stock.....	...	33,200 —
Capital Stock Subscribed	200 —	2,000 —

ABSTRACT OF SUBSCRIBERS' LEDGER

NAME	NO. OF SHARES	CLASS OF STOCK	TOTAL DEBIT	TOTAL CREDIT
M. A. Fiorita	10	Common	\$1,000	\$750
J. L. Gardiner	8	Common	800	600
E. B. Fritz....	2	Common	200	200

ABSTRACT OF STOCKHOLDERS' LEDGER

C. S. Lang	150 shares
N. B. Hogan	100 shares
F. X. Reilly	70 shares
G. C. Haas . . . . .	...
L. O. Cooper	5 shares
M. F. Conforti	5 shares
E. B. Fritz	2 shares
	<hr/>
	332 shares

(3)

M. A. Fiorita	\$250	Total shares issued (see Abstract of Stockholders' Ledger above)	332 (at \$100 a share)
J. L. Gardiner	200	Balance of Capital Stock in general ledger.	\$33,200
	<hr/>		
Total in Subscriptions Receivable in general ledger . .	\$450		

Exercise 7, Page 39

(1), (2), and (3)

In the cash receipts journal, Treasury Stock is credited in the General Ledger Cr. column for \$100 on May 31 and for \$50 on July 15. In each case the debit is to Cash.

In the cash payments journal, Treasury Stock is debited for \$200 on May 16 and Cash is credited.

In the general journal, Treasury Stock is debited for \$5,000 on June 30 and Donated Surplus is credited.

Exercise 8, Page 39

(1), (2), and (3)

In the cash receipts journal, Bonds Payable is credited for \$50,000 on January 2 and Cash is debited.

In the cash payments journal, two entries are made on December 31 of each year for five years, one debiting Interest Expense for \$3,000 and one debiting Bond Sinking Fund for \$10,000. In each case the credit is to Cash.

In the general journal, at the end of the fifth year an entry is made debiting Bonds Payable and crediting Bond Sinking Fund for \$50,000.

CHAPTER 4

CORPORATE FINANCIAL REPORTS

STUDY GUIDE 4

Unit A	Unit B	Unit C
1. Yes		1. (61)
2. Yes		2. (22)
3. No		3. (31)
4. Yes		4. (31)
5. No		5. (11)
6. Yes		6. (21)
7. No		7. (61)
8. Yes		8. (71)
9. No		9. (81)
10. Yes		10. (31)
11. Yes		11. (62)
12. No		12. (14)
13. No		13. (81)
14. No		14. (21)
15. Yes		15. (11)
16. No		16. (21)
17. Yes		17. (13)
18. No		18. (62)
19. Yes		19. (14)
20. No		20. (12)
		21. (21)
		22. (21)
		23. (51)
		24. (-11)
		25. (-13)
		26. (-51)
		27. (-41)
		28. (41)
		29. (61)
		30. (62)
		31. (12)
		32. (11)
		33. (31)
		34. (51)
		35. (-31)

Exercise 9, Page 53

(1)

WORK SHEET TOTALS

Trial Balance columns.....	\$101,972.04
Adjustments columns	66,680.06
Adjusted Trial Balance columns	102,357.11
Provision for Federal Income Taxes	206.00
Net Income after Deducting Federal Income Taxes.....	1,124.42

(2)

PROFIT AND LOSS STATEMENT TOTALS

Net Sales.. . . .	\$14,448.13
Cost of Merchandise Sold	10,313.65
Gross Profit on Sales	4,134.48
Total Selling Expenses . . .	1,709.03
Total Administrative Expenses	1,166.23
Net Profit from Operations . . .	1,259.22
Gross Income	1,422.60
Net Income before Deducting Income Taxes. . .	1,330.42

(3)

The total debit amount and the total credit amount for the adjusting entries should be \$66,680.06.

The total debit amount and the total credit amount for the closing entries should be \$30,706.92.

BALANCE SHEET TOTALS

Total Current Assets . . .	\$ 62,955.17
Total Deferred Charges . .	460.81
Total Fixed Assets	20,121.33
Total Intangible Assets. . .	2,379.15
Total Current Liabilities . .	12,418.90
Total Proprietorship.. . . .	73,497.56

(4)

The declaration of the dividend is recorded in the general journal by a debit to Surplus of \$2,570 and a credit to Preferred Dividends Payable of \$2,136 and a credit to Common Dividends Payable of \$434.

CHAPTER 5

DEPARTMENTAL PURCHASES AND SALES

STUDY GUIDE 5

Unit A				Unit B	
1. True		11. False		1. (C)	10. (B)
2. False		12. False		2. (A)	11. (B)
3. False		13. False		3. (C)	12. (B)
4. False		14. False		4. (B)	13. (A)
5. True		15. True		5. (B)	14. (B)
6. False		16. True		6. (C)	15. (A)
7. True		17. False		7. (C)	16. (C)
8. True		18. True		8. (C)	17. (C)
9. True		19. False		9. (A)	
10. False		20. True			

Exercise 10, Page 66

(1) and (2)

Purchases Journal Totals

Accounts Payable Cr., \$145.25
 Purchases, Dept. A Dr., \$79.00
 Trans. on Purchases, Dept. A Dr., \$1.42
 Purchases, Dept. B Dr., \$59.03
 Trans. on Purchases, Dept. B Dr., \$2.80

Returned Purchases and Allowances Journal Totals:

Accounts Payable Dr., \$11.61
 Ret. Pur. and Allow., Dept. A Cr., \$6.47
 Ret. Pur. and Allow., Dept. B Cr., \$3.14

Cash Receipts Journal Totals:

General Ledger Cr., —
 Accounts Receivable Cr., —
 Sales, Dept. A Cr., \$511.10

Sales Journal Totals:

Accounts Receivable Dr., \$107.76
 Sales, Dept. A Cr., \$57.90
 Sales, Dept. B Cr., \$49.86

Returned Sales and Allowances Journal Totals

Accounts Receivable Cr., \$26.46
 Ret. Sales and Allow., Dept. A Dr., \$8.19
 Ret. Sales and Allow., Dept. B Dr., \$18.27

Sales, Dept. B Cr., \$476.03
 Discount on Sales Dr., —
 Net Cash Dr., \$1,017.13

Exercise 11, Page 68

Totals for Departmental Schedule of Gross Profits

ITEMS	DEPT. A	DEPT. B	DEPT. C	TOTAL
Net Sales	\$24,404 86	\$21,287 12	\$28,744 21	\$74,436 19
Cost of Merchandise Sold. . . .	14,272 08	15,262 69	19,387 29	48,922 06
Gross Profit on Sales	10,132 78	6,024 43	9,356 92	25,514 13

Exercise 12. Page 68

(1)

WORK SHEET TOTALS

Trial Balance columns	\$92,105 97
Adjustments columns	39,797 76
Adj. Trial Balance columns . .	93,605 53
Gross Profit on Sales:	
Department A	9,633 51
Department B	17,326 50
Provision for Federal Income Taxes	805 99
Net Income after Deducting Federal Income Taxes	4,579 23

(3)

BALANCE SHEET TOTALS

Total Assets	\$42,758 24
Total Current Liabilities	6,766 21
Total Proprietorship.	35,992 03

(4)

The total of both the Debit Amount column and the Credit Amount column of the general journal should be \$145,107.16 after the adjusting and the closing entries have been recorded.

(2)

PROFIT AND LOSS STATEMENT TOTALS

	DEPT. A	DEPT. B	TOTAL
Net Sales	\$23,625 77	\$27,491 28	\$51,117 05
Cost of Merchandise Sold	13,992 26	10,164 78	24,157 04
Gross Profit on Sales	9,633 51	17,326 50	26,960 01
Total Selling Expenses			8,811 33
Total Administrative Expenses.			13,289 77
Net Profit from Operations			4,858 91
Gross Income			5,498 11
Net Income Before Deducting Federal Income Taxes			5,385 22

(5)

194-

Jan. 1 Interest Payable	49 15	
Interest Expense		49 15
1 Property Taxes Payable	987 15	
Property Taxes..		987 15

CHAPTER 6

THE VOUCHER SYSTEM

STUDY GUIDE 6

Unit A

1. (E)
2. (C)
3. (G)
4. (J)
5. (M)
6. (Q)
7. (S)
8. (H)
9. (I)
10. (D)
11. (B)
12. (K)
13. (O)
14. (R)
15. (T)

Unit B

1. Yes
2. Yes
3. No
4. Yes
5. Yes
6. No
7. Yes
8. Yes
9. Yes
10. No

Unit C

- | | |
|-----------|-----------|
| 1. True | 14. False |
| 2. True | 15. True |
| 3. True | 16. True |
| 4. False | 17. False |
| 5. True | 18. False |
| 6. False | 19. True |
| 7. False | 20. True |
| 8. False | 21. True |
| 9. True | 22. False |
| 10. False | 23. True |
| 11. False | 24. False |
| 12. False | 25. True |
| 13. True | |

Exercise 13, Page 84

(1), (2), and (3)

Voucher Register Totals:

Vouchers Payable Cr., \$4,660.80
 Purchases Dr., \$2,616.20
 Transportation on Purchases Dr., \$58.99
 Store Supplies Dr., \$56.10
 Office Supplies Dr., \$59.42
 Advertising Expense Dr., \$40.57
 Miscellaneous Selling Expense Dr., \$2.19
 Miscellaneous Adm. Expense Dr., \$7.50
 General Ledger Dr., \$1,789.83

Check Register Totals:

Vouchers Payable Dr., \$2,574.03
 Discount on Purchases Cr., \$44.59
 F. O. A. Ins. Taxes Payable Cr., \$7.60
 Net Cash Cr., \$2,521.84

General Journal Totals:

Debit Amount, \$275.10
 Credit Amount, \$275.10

(4)

ABSTRACT OF GENERAL LEDGER

ACCOUNT TITLE	DEBIT BALANCE	CREDIT BALANCE
Cash		2,521 84
Store Supplies	56 10	31 15
Office Supplies	59 42	
Delivery Equipment	885 50	
Vouchers Payable	2,849 13	4,660 80
Federal Old-Age Insurance Taxes Payable		7 60
Purchases	2,646 20	221 45
Returned Purchases and Allowances		22 50
Transportation on Purchases	58 99	
Store Salaries	440 00	
Advertising Expense	40 57	
Transportation on Sales	58 18	
Delivery Expense	21 15	
Miscellaneous Selling Expense	2 19	
Office Salaries	320 00	
Rent Expense	65 —	
Miscellaneous Administrative Expense	7 50	
Discount on Purchases		44 59
	7,509 93	7,509 93

(5)

ABSTRACT OF UNPAID VOUCHERS, OCTOBER 31, 19--

Voucher No. 805 - Harlem Trunk Co.	582.17
Voucher No. 808 - Tri-State Automobile Co.	885 50
Voucher No. 815 - Lakeside Supply Co.	24 --
Voucher No. 816 - New-Process Luggage Corp.	320
Total Vouchers Payable	1,811 67

CHAPTER 7

RECORDS OF A MANUFACTURING BUSINESS

STUDY GUIDE 7

Unit A

1. (J)
2. (P)
3. (L)
4. (M)
5. (F)
6. (B)
7. (G)
8. (I)
9. (A)
10. (H)
11. (Q)
12. (D)
13. (E)
14. (O)
15. (N)

Unit B

- | | | |
|----------|-----------|-----------|
| 1. True | 10. False | 18. False |
| 2. True | 11. True | 19. True |
| 3. True | 12. False | 20. True |
| 4. False | 13. True | 21. False |
| 5. True | 14. False | 22. False |
| 6. False | 15. True | 23. False |
| 7. True | 16. False | 24. True |
| 8. True | 17. True | 25. False |
| 9. False | | |

Exercise 14, Page 102

Voucher Register Totals:

Vouchers Payable Cr., \$6,938.22
 Raw Materials Dr., \$3,944.89
 Factory Supplies Dr., \$32.87
 Misc. Factory Expenses Dr., \$96.00
 Misc. Selling Expenses Dr., \$21.17
 Misc. Admin. Expenses Dr., \$83.25
 General Ledger Dr., \$2,760.04

Exercise 15, Page 103

(1) and (2)

Summary of Cost Sheet:

Raw Materials, \$83.30
 Direct Labor, \$44.68
 Overhead (70%), \$31.28
 Total Cost, \$159.26
 Cost per unit, \$0.3185

Exercise 16, Page 104

(1), (2), and (3)

Finished Goods Journal Totals:

Finished Goods Dr — Goods in Process Cr., \$15,217.00

Sales Journal Totals:

Accounts Receivable Dr.—Sales Cr., \$3,232.50
 Cost of Sales Dr.—Finished Goods Cr., \$2,779.50

CHAPTER 8

REPORTS OF A MANUFACTURING BUSINESS

STUDY GUIDE 8

Unit A

- | | |
|--------|---------|
| 1. No | 11. No |
| 2. Yes | 12. Yes |
| 3. No | 13. Yes |
| 4. Yes | 14. No |
| 5. Yes | 15. No |
| 6. Yes | 16. Yes |
| 7. Yes | 17. Yes |
| 8. No | 18. No |
| 9. No | 19. No |
| 10. No | 20. No |

Unit B

- | | |
|---------|---------|
| 1. (B) | 11. (C) |
| 2. (A) | 12. (C) |
| 3. (B) | 13. (A) |
| 4. (A) | 14. (A) |
| 5. (C) | 15. (B) |
| 6. (C) | 16. (A) |
| 7. (C) | 17. (C) |
| 8. (A) | 18. (A) |
| 9. (A) | 19. (C) |
| 10. (A) | 20. (A) |

SOLUTIONS

Exercise 17, Page 118

(1)

ADJUSTING ENTRIES

Factory Supplies Used	...	445 30	
Factory Supplies	.		445 30)
Expired Insurance on Machinery and Equipment		1,600 —	
Prepaid Insurance on Machinery and Equipment			1,600
Depreciation of Machinery and Equipment		2,600 —	
Reserve for Depreciation of Machinery and Equipment			2,600
Factory Property Taxes		315.—	
Property Taxes Payable			315
Goods in Process		71,200 —	
Direct Labor			71,200
Goods in Process		55,080 —	
Overhead			55,080
Overhead		54,944 30	
Indirect Labor			28,500
Light, Heat, and Power			15,830
Factory Property Taxes			1,945
Social Security Taxes (Factory Labor)			1,177 80
State Unemployment Contributions (Factory Labor)			2,446 20
Depreciation of Machinery and Equipment			2,600
Expired Insurance on Machinery and Equipment			1,600
Factory Supplies Used	....		445 30)
Miscellaneous Factory Expenses	. . . . .		400 —

(2)

MANUFACTURING STATEMENT TOTALS

Cost of Raw Materials Placed in Process	\$ 78,180 —
Direct Labor	71,200 —
Total Actual Overhead	54,944 30
Overabsorbed Overhead	135 70
Total Overhead Applied	55,080 —
Total Cost of Goods Placed in Process	204,460 —
Total Cost of Goods in Process During the Period	226,260 —
Cost of Goods Manufactured	199,960 —

Exercise 18, Page 119

(1) and (6)

WESTCLIFFE MANUFACTURING COMPANY

POST-CLOSING TRIAL BALANCE, SEPTEMBER 27, 191—

Cash	2,329 90	
Accounts Receivable	1,813 --	
Reserve for Bad Debts		185 87
Raw Materials	7,813 15	
Goods in Process	5,118 89	
Finished Goods	1,300 87	
Factory Supplies	56 55	
Office Supplies	71 81	
Prepaid Insurance	52 50	
Factory Machinery	4,335	
Reserve for Depreciation of Factory Machinery		472 62
Office Equipment	600	
Reserve for Depreciation of Office Equipment		116 40
Vouchers Payable		1,237 93
Federal Old-Age Insurance Taxes Payable		357 15
Federal Unemployment Taxes Payable		160 71
State Unemployment Contributions Payable		482 15
Provision for Federal Income Taxes		519 68
Capital Stock		19,200 --
Surplus		717 41
Overhead		41 84
	23,491 76	23,491 76

(2)

ADJUSTING ENTRIES

Sept. 27 Bad Debts	43 37	
Reserve for Bad Debts		43 37
27 Factory Supplies Used	176 85	
Factory Supplies		176 85
27 Office Supplies Used	48 22	
Office Supplies		48 22
27 Expired Insurance on Factory	75 --	
Expired Insurance on Office	7 50	
Prepaid Insurance		82 50
27 Depreciation of Factory Machinery	33 35	
Depreciation of Office Equipment	29 15	
Reserve for Depreciation of Factory Machinery		33 35
Reserve for Depreciation of Office Equipment		29 15
27 Goods in Process	2,792 85	
Direct Labor		2,792 85
27 Goods in Process	2,094 64	
Overhead		2,094 64

Sept 27 Overhead	2,052 80	
Indirect Labor.		1,207 15
Factory Rent		300 -
Heat, Light, and Power		100 15
Social Security Taxes (Factory).		52 --
State Unemployment Contributions (Factory)		108 --
Expired Insurance on Factory.		75 --
Factory Supplies Used.		176 85
Depreciation of Factory Machinery.		33 35

(3)

MANUFACTURING STATEMENT TOTALS

Cost of Raw Materials Placed in Process . .	\$ 7,597 07
Direct Labor . .	2,792 85
Total Actual Overhead . .	2,052 80
Overabsorbed Overhead	41 84
Total Overhead Applied. . .	2,094 64
Total Cost of Goods Placed in Process	12,484 56
Total Cost of Goods in Process During the Period	17,311 05
Cost of Goods Manufactured	12,192 16

(4)

PROFIT AND LOSS STATEMENT TOTALS

Net Sales	\$17,022 77
Cost of Goods Sold	13,084 44
Gross Profit on Sales	3,938 33
Total Selling Expenses . .	1,943 27
Total Administrative Expenses	1,686 17
Net Profit from Operations. . . .	308 89
Gross Income	516 85
Net Income Before Deducting Federal Income Taxes. . . .	340.47

(5)

BALANCE SHEET TOTALS

Total Current Assets . .	\$18,190 03
Total Deferred Charges. .	180 86
Total Fixed Assets . . .	4,345 98
Total Current Liabilities. .	2,757 62
Total Deferred Credit. . . .	41 84
Total Proprietorship.	19,917 41

(6)

The total debit amount and the total credit amount for the closing entries should be \$35,108.96.

FINAL CHECKUP

SECTION A

1. (26)
2. (11)
3. (5)
4. (17)
5. (2)
6. (28)
7. (3)
8. (21)
9. (24)
10. (9)
11. (8)
12. (30)
13. (6)
14. (22)
15. (13)
16. (7)
17. (12)
18. (10)
19. (16)
20. (18)

SECTION B

1. true
2. false
3. false
4. false
5. false
6. true
7. true
8. true
9. false
10. true

SECTION C

	Debits	Credits
1.	7	14
2.	5	3
3.	14	5, 6
4.	7	14
5.	16	7
6.	7	16
7.	16	9
8.	7	2
9.	11	7
10.	1	7
11.	2	1
12.	15	10
13.	15	12
14.	15	8, 13
15.	8, 13	7

SECTION D

1. true
2. true
3. true
4. true
5. false
6. true
7. true
8. true
9. false
10. false

SECTION E

1. (C)
2. (B)
3. (A)
4. (A)
5. (C)
6. (B)
7. (A)
8. (B)
9. (A)
10. (A)
11. (A)
12. (B)
13. (B)

SECTION F

1. true
2. false
3. true
4. true
5. true
6. false
7. true
8. false
9. false
10. true
11. true
12. true
13. true
14. false
15. false
16. false
17. true
18. false
19. false
20. false

SECTION G

	I Raw Materials	II Direct Labor	III Overhead
1.	✓		
2.			✓
3.			✓
4.			✓
5.	✓		
6.		✓	
7.			✓
8.			✓
9.	✓		
10.	✓		
11.			✓
12.			✓
13.			✓
14.	✓		
15.		✓	
16.	✓		
17.			✓
18.			✓
19.			✓
20.	✓		

INDEX

A

Abstract of vouchers payable, 80
Accounts, manufacturing, 116
Actual overhead, recording, 110
Adjusting entries, departmental, 65; for actual overhead, 110; for a corporation, 48; for a manufacturing business, 114; to record direct labor and overhead in goods in process account, 109
Allocation of charges to departments, 56
Apex Manufacturing Company Practice Set, The, 121

B

Balance sheet, corporate, 45, 57; departmental, 64; of a corporation, 7, 8; of a manufacturing business, 114, 115
Blank, subscription, 27
Board of directors, 2
Bond issue, 35, recording a, 35
Bonds, corporation, 35
Bond sinking fund, 36
Bonds payable, 36, interest on, 36
Book inventories, 88, 106
Book value of stock, 6

C

Capital stock, 2; subscriptions for, 16
Capital Surplus, 33
Cash journals, departmental, 59
Cash record, subscription, 28
Certificate, of incorporation, 14, 15; stock, 2
Charter, 1, 14
Check, voucher, 78
Check register, 78, 79; posting the, 80
Checkup, final, 143
Closing entries, departmental, 65; for a corporation, 49; for a manufacturing business, 116
Common stock, 4; accounts, 18
Comptroller, 71
Corporate, balance sheet, 45, 47; financial reports, 41; income taxes, 44; profit and loss statement, 45, 46; records, 27
Corporate work sheet, 41; analysis of, 44
Corporation, adjusting entries of a, 48; advantages of a, 9; balance sheet of a, 7; characteristics of a, 1; charter, 1; closing entries for a, 49; comparison of a partnership with a, 8; definition of a, 1; disadvantages of a, 9; formation of a, 13; opening entry for a, 14; opening the books of the, 22; organization of a, 13; organization chart of a, 3 ownership in a, 2; proprietorship in a, 1; proprietorship accounts of a, 6, 23; transactions of a, 27; work of, at end of fiscal period, 41; working organization of a, 2
Corporation bonds, 35
Corporation minute book, 37
Costs, manufacturing, 87
Cost sheet, 93; completed, 98; distributing overhead to, 96
Cumulative preferred stock, 4

D

Date, of payment of a dividend, 52; of record, 52
Deficit, 6
Departmental, accounting, 55; adjusting entries, 65; balance sheet, 64; cash journals, 59; closing entries, 65; profit and loss statement, 64; transportation on purchases, 56
Departmental work sheet, 59; analysis of the, 60
Departmentalized expenses, 65
Department head, 55
Departments, feeder, 55; service, 55
Direct labor, 87, 94; account, 95; adjusting entry to record, in goods in process account, 109
Directors, board of, 2
Dividends, 3; declaring, 52; distributing, to stockholders, 53
Donated surplus, 33, 35
Donated treasury stock, 34

E

Earned surplus, 33
End-of-Course Test, IV, 120
Expenditures, controlling, 71
Expenses, departmentalized, 65; organization, 16

F

Factory supplies, 95
Federal income taxes, of a corporation, 44; provision for, 48
Feeder departments, 55
File, paid vouchers, 80; unpaid vouchers, 77
Final checkup, 143
Financial reports, corporate, 41; of a manufacturing business, 106
Finished goods, 88, 98, 106; selling, 100; inventory, 108
Finished goods journal, 98; posting the totals of the, 99
Fiscal period, 106; four-week, 106
Fixed liabilities, 36
Floating a loan, 35
"For Customer's Use Only" block of simplified invoice, 72

G

Goods, finished, *see* Finished goods
Goods in process, 88, 92, 106
Goods in process account, adjusting entry to record overhead in, 97; completing the, 109
Goods in process inventory, 92, 107
Goodwill, 20; writing off, 50
Gross profits, departmental schedule of, 63

I

Income taxes, corporate, 44
Incorporating a partnership, 18
Incorporation, certificate of, 14, 15
Indirect labor, 94; account, 95
Intangible asset, 16, 20
Interest on bonds payable, 36

Inventories, of a manufacturing business, 106; perpetual or book, 106; proving perpetual, 109
Inventory, finished goods, 108; goods in process, 92, 107; perpetual or book, 88; raw materials, 107
Invoice, verification of, 72
Issue value of stock, 6

J

Job cost ledger, 93
Journal, finished goods, 98, requisition, 91, 92

L

Labor, 94; direct, *see* Direct labor; indirect, *see* Indirect labor
Labor costs, recording, 94
Ledger, job cost, 93; stock, 99; stockholders', 31; stores, 89, subscribers', 29
Liabilities, fixed, 36
Loan, floating a, 35

M

Materials, raw, *see* Raw materials
Manufacturing accounts, 116
Manufacturing business, 87, adjusting and closing entries for a, 114, 116; balance sheet of a, 114, 115; inventories of a, 106, profit and loss statement of a, 111, 112; records of a, 87; reports of a, 106; sales journal of a, 101; voucher register of a, 95
Manufacturing costs, control of 87; elements of, 87
Manufacturing statement, 87, 113
Market value of stock, 7

N

Noncumulative preferred stock, 4
Nonparticipating preferred stock, 4
Nopar-value stock, 5

O

Organization chart of a corporation, 3
Organization expenses, 16; writing off, 51
Overabsorbed overhead, 110
Overhead, 87, 95; actual, 110, adjusting entry to record, in goods in process account, 97, 109; classification of overabsorbed and underabsorbed on balance sheet, 111; distributed to cost sheets, 96; overabsorbed, 110; recording actual, 110; underabsorbed, 111

P

Paid-in surplus, 33
Paid vouchers file, 80
Participating preferred stock, 4
Par-value stock, 5
Perpetual inventories, 88, 106; proving, 109

Petty cash transactions under a voucher system, 81

Practice Set, The Apex Manufacturing Company, 121

Preferred stock, 4; accounts, 18; cumulative, 4; noncumulative, 4; nonparticipating, 4; participating, 4

Premium on capital stock, 33

Profit and loss statement, corporate, 45, 46; departmental, 62; of a manufacturing business, 111; simplified departmental, 64

Proprietorship, minus, 33; in a corporation, 1

Proprietorship accounts of a corporation, 6, 23

Provision for Federal income taxes, 48

Proxy, voting by, 3

Purchases, departmental, 55

Purchases journal with departmental columns, 56

R

Raw materials, 87, 88, 106; inventory, 107, recording purchase of, 88, used in factory, 91

Reacquired stock, 33

Register, check, 78, 79; voucher, **see** Voucher register

Requisition, stores, 91

Requisition journal, 91, 92

Returned materials and allowances account, 90

Returned purchases and allowances, departmental, 57, under voucher system, 81

Returned sales and allowances, departmental, 58

S

Schedule of gross profits, departmental, 63

Service departments, 55

Shares, 2

Simplified departmental profit and loss statement, 64

Simplified invoice, "For Customer's Use Only" block of, 72

Sinking fund, bond, 36

Statement, manufacturing, 106, 113

Stock, capital, 2, common, 4, donated treasury, 34; nonpar-value, 5, par-value, 5, preferred, 4; reacquired, 33, treasury, 33; values of, 6

Stock certificate, 2, 30, book, 30

Stockholders, 2, distributing dividends to, 53, ledger, 31

Stock ledger, 99

Stock room, 99

Stock transfer, 32, book, 32

Stores, clerk, 89; ledger, 89, 90, requisition, 91

Subscribers, 13, ledger, 29

Subscription, blank, 27, book, 27, 28; cash record, 28, for capital stock, 16; list, 13

Supplies, factory, 95

Surplus, 6, capital, 33, earned, 33, donated, 33, 35, paid in, 33

T

Taxes, corporate income, 44

Time ticket, 94

Transportation on purchases, departmental, 56

Treasury stock, 33; donated, 34

Trustee, 35

U

Underabsorbed overhead, 111

Unpaid vouchers file, 77

V

Value, book, 6; issue, 6, market, 7

Verification of invoices, 72

Voting by proxy, 3

Voucher, 71; check, 78, clerk, 71, inside of, 74; outside of, 73, preparing the, 72

Voucher register, 75; analysis of the, 76; of a manufacturing business, 95, 96, 97, posting the, 77

Voucher system, 71, advantages of, 83, disadvantages of, 83

petty cash transactions under, 81; returned purchases and allowances under, 81

Vouchers, immediate payment of, 80, pad, file, 80, partial payments of, 82, paying, 78, recording, 75; unpaid, file, 77

Vouchers payable, abstract of, 80; account, 75

W

Wages, paying, 95

Work sheet, corporate, 41, departmental, 59

Writing off, goodwill, 50, organization expenses, 51

